



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 2023**

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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 2023. The condensed consolidated statement of financial position of the Group as at 30 June 2023 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 2023 are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim Financial Reporting* along with certain explanatory notes are set out on pages 4 to 76 of these interim financial disclosure statements.

Interim Results

The Board of Directors is pleased to announce that the unaudited consolidated profit attributable to the shareholders of the Bank for the six months ended 30 June 2023 was HK\$3,885 million. This represents a 4.55% increase over the same period last year (first half of 2022: HK\$3,716 million). Return on average assets and return on average equity were 0.85% and 6.66% respectively (first half of 2022: 0.81% and 6.49% respectively).

Financial Review

In the first half of 2023, the Group’s consolidated profit attributable to shareholders was HK\$3,885 million, representing an increase of HK\$169 million or 4.55% over HK\$3,716 million achieved for the corresponding period in 2022.

Net interest income increased by HK\$628 million or 14.17% to HK\$5,064 million. Net fee and commission income decreased by HK\$35 million or 3.28% to HK\$1,040 million.

Non-interest income increased by HK\$289 million or 22.88% to HK\$1,552 million from HK\$1,263 million for the corresponding period in 2022. The ratio of non-interest income to total operating income was 23.46%, up by 1.29% compared with the corresponding period in 2022.

Operating expenses increased by HK\$207 million or 11.63% to HK\$1,987 million, compared with HK\$1,780 million for the corresponding period in 2022. The cost to income ratio was 30.04%, down by 1.19% compared with the corresponding period in 2022.

The net provision for expected credit loss on loans and advances for the period was HK\$344 million, out of which HK\$101 million was released as write back for non-credit impaired exposures and HK\$445 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\$927,668 million as at 30 June 2023, representing an increase of HK\$2,848 million or 0.31% over the financial position as at 31 December 2022.

Customer deposits amounted to HK\$583,307 million as at 30 June 2023 representing an increase of HK\$17,468 million or 3.09%, compared to HK\$565,839 million as at 31 December 2022. Loans and advances also increased by HK\$10,614 million or 2.28% to HK\$476,891 million as at 30 June 2023 compared to HK\$466,277 million as at 31 December 2022.

Total securities investment amounted to HK\$230,897 million as at 30 June 2023, which represents an increase of HK\$2,343 million or 1.03% compared to HK\$228,554 million as at 31 December 2022.

Total certificates of deposit issued decreased by HK\$729 million or 22.67% to HK\$2,487 million as at 30 June 2023, compared to HK\$3,216 million as at 31 December 2022.

Capital and Liquidity Management

The Group's capital adequacy ratio increased to 23.05% as at 30 June 2023 from 22.39% as at 31 December 2022. In the first half of 2023, the average liquidity coverage ratio amounted to 186.22% (first half of 2022: 182.61%).

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\$160 million to HK\$3,762 million as at 30 June 2023, compared with HK\$3,922 million as at 31 December 2022. The impaired loan ratio was 0.78% as at 30 June 2023 (31 December 2022: 0.83%).

As at 30 June 2023, the cumulative loan impairment allowances amounted to HK\$8,078 million (31 December 2022: HK\$8,196 million), which included impairment allowance of HK\$5,738 million (31 December 2022: HK\$5,912 million) for non-credit impaired exposures and impairment allowance of HK\$2,340 million (31 December 2022: HK\$2,283 million) for credit-impaired exposures.

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2023
(UNAUDITED)**

	Notes	Unaudited six months ended 30 June 2023 HK\$'000	Unaudited six months ended 30 June 2022 HK\$'000
Interest income	(6)	16,509,985	7,679,130
Interest expense	(6)	(11,446,175)	(3,243,637)
Net interest income	(6)	5,063,810	4,435,493
Fee and commission income	(7)	1,159,377	1,163,250
Fee and commission expense	(7)	(118,973)	(87,521)
Net fee and commission income	(7)	1,040,404	1,075,729
Net trading income	(8)	363,886	223,591
Net loss on financial assets and liabilities at fair value through profit or loss	(9)	(74,555)	(286,241)
Dividend income from financial investments	(10)	20,123	44,705
Other operating income	(11)	202,314	205,712
Operating income		6,615,982	5,698,989
Operating expenses	(12)	(1,987,138)	(1,779,890)
Operating profit before impairment losses		4,628,844	3,919,099
Net (charge)/reversal for impairment losses	(13)	(356,228)	181,422
Operating profit after impairment losses		4,272,616	4,100,521
Net loss on disposal of property, plant and equipment	(14)	(604)	(1,865)
Net gain on disposal of financial assets at fair value through other comprehensive income		220,377	520,434
Net loss on disposal of financial assets at amortised cost		(16,649)	(16,438)
Gain on partial disposal of an associate		109,871	–
Operating profit		4,585,611	4,602,652
Share of losses of associates		(18,389)	(35,753)
Profit before tax		4,567,222	4,566,899
Income tax expense	(15)	(682,232)	(850,930)
Profit for the period attributable to shareholders of the Bank		3,884,990	3,715,969

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2023
(UNAUDITED)**

	Unaudited six months ended 30 June 2023 HK\$'000	Unaudited six months ended 30 June 2022 HK\$'000
Profit for the period	<u>3,884,990</u>	<u>3,715,969</u>
Items that will not be reclassified to profit or loss:		
Change in fair value of equity investments measured at fair value through other comprehensive income	<u>(136,191)</u>	<u>(434,059)</u>
	<u>(136,191)</u>	<u>(434,059)</u>
Revaluation surplus on bank premises	3,697	4,115
Income tax effect	<u>(610)</u>	<u>(679)</u>
	<u>3,087</u>	<u>3,436</u>
Items that may be reclassified subsequently to profit or loss:		
Net movements under cash flow hedges due to fair value of hedging instruments recognised and reclassified	1,637	237,283
Income tax effect	<u>(1,650)</u>	<u>44,158</u>
	<u>(13)</u>	<u>281,441</u>
Change in fair value of financial assets measured at fair value through other comprehensive income	1,339,748	(5,007,925)
Reclassification to condensed consolidated income statement upon disposal of financial assets measured at fair value through other comprehensive income	<u>(220,377)</u>	<u>(520,434)</u>
Fair value of the hedged items attributable to hedged risk transferred to the condensed consolidated income statement	<u>(231,054)</u>	1,660,283
Net reversal for impairment losses on financial assets	18,115	66,971
Income tax effect	<u>(157,080)</u>	<u>636,797</u>
	<u>749,352</u>	<u>(3,164,308)</u>
Exchange differences arising from translation of results of foreign subsidiaries	<u>(558,097)</u>	<u>(711,846)</u>
Other comprehensive income/(expense) for the period, net of tax	<u>58,138</u>	<u>(4,025,336)</u>
Total comprehensive income/(expense) for the period, net of tax	<u>3,943,128</u>	<u>(309,367)</u>
Attributable to:		
Shareholders of the Bank	<u>3,943,128</u>	<u>(309,367)</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023
(UNAUDITED)**

		Unaudited 30 June 2023 HK\$'000	Audited 31 December 2022 HK\$'000
	Notes		
Assets			
Cash and balances with banks and other financial institutions	(17)	103,461,427	127,315,859
Placements with banks and other financial institutions	(18)	72,274,486	61,288,223
Derivative financial instruments	(19)	18,642,809	17,697,213
Advances and other accounts	(20)	476,891,429	466,277,082
Financial investments	(21)	238,569,564	236,296,716
Investments in associates		153,076	211,595
Current income tax assets		30,737	18,825
Goodwill and other intangible assets		1,019,996	1,020,212
Investment properties	(22)	209,000	209,000
Property, plant and equipment	(23)	1,532,920	1,757,564
Deferred income tax assets	(27)	1,899,147	2,060,665
Other assets	(24)	12,982,996	10,667,066
		<hr/>	<hr/>
Total assets		927,667,587	924,820,020
		<hr/>	<hr/>
Liabilities			
Deposits from banks and other financial institutions	(25)	143,431,092	162,339,887
Trading liabilities		194,484	58,614
Derivative financial instruments	(19)	15,120,628	16,226,913
Deposits from customers	(26)	583,307,083	565,839,119
Certificates of deposit issued		2,487,355	3,216,020
Debt securities in issue	(28)	17,281,421	18,846,608
Current income tax liabilities		1,182,108	928,386
Other liabilities	(29)	17,774,602	13,802,171
		<hr/>	<hr/>
Total liabilities		780,778,773	781,257,718
		<hr/>	<hr/>
Equity			
Share capital	(30)	44,187,631	44,187,631
Retained earnings		74,517,719	71,249,353
Other reserves		514,699	456,553
		<hr/>	<hr/>
Total equity attributable to shareholders of the Bank		119,220,049	115,893,537
Additional equity instruments	(31)	27,668,765	27,668,765
		<hr/>	<hr/>
Total equity		146,888,814	143,562,302
		<hr/>	<hr/>
Total equity and liabilities		927,667,587	924,820,020
		<hr/>	<hr/>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2023
(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
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2023	44,187,631	746,197	(3,504,252)	(23,529)	(23,470)	(747,898)	4,009,505	71,249,353	27,668,765	143,562,302
Profit for the period	-	-	-	-	-	-	-	3,884,990	-	3,884,990
Other comprehensive income/(expense) for the period:										
Change in fair value of financial assets measured at fair value through other comprehensive income	-	-	1,339,748	(136,191)	-	-	-	-	-	1,203,557
Reclassification to condensed consolidated income statement upon disposal of financial assets measured at fair value through other comprehensive income	-	-	(220,377)	-	-	-	-	-	-	(220,377)
Fair value of the hedged items attributable to hedged risk transferred to the condensed consolidated income statement	-	-	(231,054)	-	-	-	-	-	-	(231,054)
Net movements under cash flow hedges due to fair value of hedging instruments recognised and reclassified	-	-	-	-	1,637	-	-	-	-	1,637
Net reversal for impairment losses on financial assets	-	-	18,115	-	-	-	-	-	-	18,115
Revaluation surplus on bank premises	-	3,697	-	-	-	-	-	-	-	3,697
Income tax effect	-	(610)	(157,080)	-	(1,650)	-	-	-	-	(159,340)
Exchange differences arising from translation of results of foreign subsidiaries	-	-	-	-	-	(558,097)	-	-	-	(558,097)
Total comprehensive income/(expense) for the period	-	3,087	749,352	(136,191)	(13)	(558,097)	-	3,884,990	-	3,943,128
Partial transfer of retained earnings to general reserve	-	-	-	-	-	-	8	(8)	-	-
Distributions paid on additional equity instruments	-	-	-	-	-	-	-	(616,616)	-	(616,616)
At 30 June 2023	<u>44,187,631</u>	<u>749,284</u>	<u>(2,754,900)</u>	<u>(159,720)</u>	<u>(23,483)</u>	<u>(1,305,995)</u>	<u>4,009,513</u>	<u>74,517,719</u>	<u>27,668,765</u>	<u>146,888,814</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(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
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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 income/(expense) for the period:										
Change in fair value of financial assets measured at fair value through other comprehensive income	-	-	(5,007,925)	(434,059)	-	-	-	-	-	(5,441,984)
Reclassification to condensed consolidated income statement upon disposal of financial assets measured at fair value through other comprehensive income	-	-	(520,434)	-	-	-	-	-	-	(520,434)
Fair value of the hedged items attributable to hedged risk transferred to the condensed consolidated income statement	-	-	1,660,283	-	-	-	-	-	-	1,660,283
Net movements 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	-	(679)	636,797	-	44,158	-	-	-	-	680,276
Exchange differences arising from translation of results of foreign subsidiaries	-	-	-	-	-	(711,846)	-	-	-	(711,846)
Total comprehensive income/(expense) 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)	-	-
Distributions paid on additional equity instruments	-	-	-	-	-	-	-	(614,680)	-	(614,680)
At 30 June 2022	44,187,631	635,035	(2,391,078)	(880,863)	(72,149)	(10,251)	3,963,764	69,567,827	27,668,765	142,668,681

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2023
(UNAUDITED)**

	Unaudited six months ended 30 June 2023 HK\$'000	Unaudited six months ended 30 June 2022 HK\$'000
Profit before tax	4,567,222	4,566,899
Adjustments for:		
Depreciation and amortisation	281,016	285,627
Gain on partial disposal of an associate	(109,871)	–
Net charge/(reversal) for impairment loss	356,228	(181,422)
Change in operating assets	(25,253,285)	(53,451,043)
Change in operating liabilities	7,247,563	(4,057,719)
Effects of foreign exchange differences	(191,096)	(523,279)
Tax paid	(452,488)	(240,260)
Other adjustments including non-cash items	277,118	40,110
	<hr/>	<hr/>
Net cash flows used in operating activities	(13,277,593)	(53,561,087)
Cash flows from investing activities:		
Purchase of intangible assets	(3,790)	–
Purchase of property, plant and equipment	(22,983)	(24,082)
Proceeds from disposal of property, plant and equipment	13,521	13,868
Dividend income from listed financial assets at fair value through profit or loss	19,153	43,525
Dividend income from unlisted equity securities at fair value through other comprehensive income	970	1,180
	<hr/>	<hr/>
Net cash flows generated from investing activities	6,871	34,491
Cash flows from financing activities:		
Distribution paid on additional equity instruments	(616,616)	(614,680)
Redemption of debt securities measured at amortised cost	(1,559,077)	–
Issuance of debt securities measured at amortised cost	–	3,515,330
Interest paid on debt securities in issue	(419,291)	(21,301)
Payment of lease liabilities	(242,323)	(247,660)
	<hr/>	<hr/>
Net cash flows (used in)/generated from financing activities	(2,837,307)	2,631,689
Net decrease in cash and cash equivalents	(16,108,029)	(50,894,907)
Cash and cash equivalents at 1 January	110,686,380	180,275,810
Effects of foreign exchange differences	(649,065)	(713,578)
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	93,929,286	128,667,325

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 2023 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2022.

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 2022.

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 2022.

The financial information relating to the financial year ended 31 December 2022 that is included in the unaudited interim financial disclosure statements as comparative information does not constitute the Company’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 Company has delivered the financial statements for the year ended 31 December 2022 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 Company’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, a unit trust and sub-funds 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
- ICBC AMG China Fund I SPC – High Tech Investment Fund SP
- ICBC Asset Management (Global) Funds – ICBC Asset Management Greater China Total Return Bond Fund
- ICBC Europe UCITS SICAV – ICBC Schrodgers Belt and Road Bond Fund Class X USD
- AMG Investment Funds SPC – AMG USD Debt Master Strategy Fund SP – Class C Shares

3 Impact of new and amendments to HKFRSs and HKASs

In the current interim period, the Group has applied the following new and 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 2023 for the preparation of the Group's condensed consolidated financial statements:

HKFRSs

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

Except as described below, the application of the new and 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**3 Impact of revised HKFRSs and HKASs (continued)****3.1 Impacts and changes in accounting policies on application of Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*****3.1.1 Accounting policies**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the lease liabilities, and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

3.1.2 Transition and summary of effects

As disclosed in the Group's annual financial statements for the year ended 31 December 2022, the Group previously applied the HKAS 12 requirements to assets and liabilities arising from a single transaction as a whole and temporary differences relating to the relevant assets and liabilities were assessed on a net basis. Upon the application of the amendments, the Group assessed the relevant assets and liabilities separately. In accordance with the transition provision:

- (i) the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after 1 January 2022;
- (ii) the Group also, as at 1 January 2022, recognised a deferred tax asset and a deferred tax liability for all deductible and taxable temporary difference associated with right-of-use-assets and lease liabilities.

Deferred tax assets arising from lease liabilities and deferred tax liabilities arising from right-of-use assets are recognised separately. The application of the amendments has had no material impact on the Group's consolidated financial position and performance.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

3 Impact of revised HKFRSs and HKASs (continued)

3.2 Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies*

In addition, the Group will apply Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's consolidated financial statements for the year ending 31 December 2023.

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 Making Materiality Judgements (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements but is expected to affect the disclosures of the Group's accounting policies in the Group's annual consolidated financial statements for the year ending 31 December 2023.

3.3 Impacts on application of Amendments to HKAS 12 *Income Taxes International Tax Reform – Pillar Two model Rules*

In July 2023, the HKICPA issued the amendments to HKAS 12 to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the "Pillar Two legislation"). The amendments require that entities shall apply the amendments immediately upon issuance. The amendments also require that entities shall disclose separately its current tax expense/income related to Pillar Two income taxes, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after 1 January 2023.

The Group is yet to apply the temporary exception during the current interim period because the Group's entities are operating in jurisdictions which the Pillar Two legislation has not yet been enacted or substantially enacted. The Group will disclose known or reasonably estimable information that helps users of financial statements to understand the Group's exposure to Pillar Two income taxes in the Group's annual consolidated financial statements in which the Pillar Two legislation has been enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

3 Impact of revised HKFRSs and HKASs (continued)

3.4 Impacts on application of HKFRS 17 Insurance Contracts

HKFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes HKFRS 4 *Insurance Contracts*.

HKFRS 17 defines an insurance contract as a contract under which the Group accept significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Certain contracts entered into by the Group included financial guarantee contracts meet the definition of insurance contracts under HKFRS 17. HKFRS 17 allows an accounting policy choice to apply HKFRS 17 or HKFRS 9 and the Group opted to continue account for these contracts under HKFRS 9. Therefore, the application of HKFRS 17 in the current period had no material impact on the condensed consolidated financial 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 2023	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	44,642,100	58,819,327	-	-	-	-	-	103,461,427
Placements with banks and other financial institutions	-	-	16,674,803	55,599,683	-	-	-	72,274,486
Financial investments	95,579	13,526,152	35,526,898	44,351,881	82,455,795	57,818,487	4,794,772	238,569,564
Derivative financial instruments	75,209	3,643,979	3,030,522	5,541,688	3,616,165	2,735,246	-	18,642,809
Advances and other accounts	1,493,622	40,287,307	41,655,840	88,552,574	203,006,646	101,895,440	-	476,891,429
Investments in associates	-	-	-	-	-	-	153,076	153,076
Goodwill and other intangible assets	-	-	-	-	-	-	1,019,996	1,019,996
Investment properties	-	-	-	-	-	-	209,000	209,000
Property, plant and equipment	-	-	-	-	-	-	1,532,920	1,532,920
Other assets, including current and deferred income tax assets	61,113	2,393,040	1,464,549	4,851,961	4,845,557	-	1,296,660	14,912,880
Total assets	46,367,623	118,669,805	98,352,612	198,897,787	293,924,163	162,449,173	9,006,424	927,667,587
Liabilities								
Deposits from banks and other financial institutions	27,765,300	59,033,554	23,244,389	33,387,849	-	-	-	143,431,092
Trading liabilities	75,267	119,217	-	-	-	-	-	194,484
Derivative financial instruments	-	2,506,644	2,669,937	4,682,567	3,092,885	2,168,595	-	15,120,628
Deposits from customers	176,640,242	117,480,822	146,390,604	125,398,962	17,391,679	4,774	-	583,307,083
Certificates of deposit issued	-	391,768	2,095,587	-	-	-	-	2,487,355
Debt securities in issue	-	-	-	1,473,595	15,807,826	-	-	17,281,421
Other liabilities, including current and deferred income tax liabilities	4,933,827	5,108,826	2,696,719	5,365,927	772,473	78,938	-	18,956,710
Total liabilities	209,414,636	184,640,831	177,097,236	170,308,900	37,064,863	2,252,307	-	780,778,773
Net liquidity gap	(163,047,013)	(65,971,026)	(78,744,624)	28,588,887	256,859,300	160,196,866	9,006,424	146,888,814

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 2022	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	45,169,303	82,146,556	-	-	-	-	-	127,315,859
Placements with banks and other financial institutions	-	-	14,744,381	46,543,842	-	-	-	61,288,223
Financial investments	-	31,858,616	35,404,703	27,151,555	89,451,260	47,357,830	5,072,752	236,296,716
Derivative financial instruments	72,555	1,166,444	2,201,621	4,314,989	4,870,869	5,070,735	-	17,697,213
Advances and other accounts	7,902,921	33,663,612	27,311,251	102,725,692	194,519,244	100,154,362	-	466,277,082
Investments in associates	-	-	-	-	-	-	211,595	211,595
Goodwill and other intangible assets	-	-	-	-	-	-	1,020,212	1,020,212
Investment properties	-	-	-	-	-	-	209,000	209,000
Property, plant and equipment	-	-	-	-	-	-	1,757,564	1,757,564
Other assets, including current and deferred income tax assets	910,060	2,293,822	1,369,792	4,078,307	3,653,627	-	440,948	12,746,556
Total assets	54,054,839	151,129,050	81,031,748	184,814,385	292,495,000	152,582,927	8,712,071	924,820,020
Liabilities								
Deposits from banks and other financial institutions	34,089,106	53,217,115	23,388,688	46,186,868	5,458,110	-	-	162,339,887
Trading liabilities	48,658	9,956	-	-	-	-	-	58,614
Derivative financial instruments	-	1,284,408	2,211,225	4,335,694	4,385,183	4,010,403	-	16,226,913
Deposits from customers	171,570,414	94,600,491	159,274,516	122,786,777	17,606,921	-	-	565,839,119
Certificates of deposit issued	-	272,906	2,943,114	-	-	-	-	3,216,020
Debt securities in issue	-	-	1,311,030	1,559,077	15,976,501	-	-	18,846,608
Other liabilities, including current and deferred income tax liabilities	2,035,631	4,719,539	2,239,947	4,582,962	1,069,410	83,068	-	14,730,557
Total liabilities	207,743,809	154,104,415	191,368,520	179,451,378	44,496,125	4,093,471	-	781,257,718
Net liquidity gap	(153,688,970)	(2,975,365)	(110,336,772)	5,363,007	247,998,875	148,489,456	8,712,071	143,562,302

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 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 over-the-counter derivative portfolio.

The Group estimates “CVA” by referencing the market implied default loss rates of the counterparties at similar external credit grading level to construct the term structure of market-implied probability of default (“PD”), market-consensus expected loss-given-default (“ELGD”), and simulated paths of discounted future exposure under the assumption that the Group is free from default risk. 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 2023	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements				
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	–	9,625,581	–	9,625,581
Structured foreign exchange contracts	–	110	–	110
Currency swaps	–	1,272,758	–	1,272,758
FX options	–	229,573	–	229,573
Interest rate swaps	–	6,097,153	–	6,097,153
Commodity swaps	–	1,417,535	–	1,417,535
Interest rate futures	–	99	–	99
	–	18,642,809	–	18,642,809
Loans and advances to customers, banks and trade bills measured at fair value through other comprehensive income				
Advances to customers	–	142,494	–	142,494
Trade bills	–	11,850,185	–	11,850,185
	–	11,992,679	–	11,992,679
Loans and advances to customers, banks and other accounts designated at fair value through profit or loss				
Advances to customers	–	1,513,526	–	1,513,526
Financial investments held for trading				
Debts securities	–	4,377,327	–	4,377,327
Non-trading financial investments mandatorily measured at fair value through profit or loss				
Debts securities	–	162,203	–	162,203
Equities securities	–	–	92,449	92,449
Investment funds	–	4,724,141	–	4,724,141
Others	–	51,531	–	51,531
	–	4,937,875	92,449	5,030,324

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair value of financial assets and liabilities (continued)

30 June 2023	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements				
Financial investments measured at fair value through other comprehensive income				
Debts securities	–	105,514,306	–	105,514,306
Equity securities and investment funds	–	12,959	3,109,145	3,122,104
	–	105,527,265	3,109,145	108,636,410
Total financial assets	–	146,991,481	3,201,594	150,193,075
Financial liabilities				
Structured deposits from customers	–	21,853,274	–	21,853,274
Deposits from banks and other financial institutions	–	17,691,240	–	17,691,240
	–	39,544,514	–	39,544,514
Derivative financial instruments				
Forward foreign exchange contracts	–	8,756,959	–	8,756,959
Structured foreign exchange contracts	–	1,504	–	1,504
Currency swaps	–	1,199,364	–	1,199,364
FX options	–	205,361	–	205,361
Interest rate swaps	–	4,821,170	–	4,821,170
Commodity swaps	–	96,207	–	96,207
Interest rate futures	–	132	–	132
Equity swaps	–	39,931	–	39,931
	–	15,120,628	–	15,120,628
Trading liabilities	–	194,484	–	194,484
Financial liabilities designated at fair value through profit or loss				
Debt securities in issue	–	1,473,595	–	1,473,595
Total financial liabilities	–	56,333,221	–	56,333,221

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

31 December 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	–	6,842,222	–	6,842,222
Structured foreign exchange contracts	–	128	–	128
Currency swaps	–	1,060,038	–	1,060,038
FX options	–	215,698	–	215,698
Interest rate swaps	–	9,282,400	–	9,282,400
Commodity swaps	–	296,565	–	296,565
Interest rate futures	–	162	–	162
	–	17,697,213	–	17,697,213
Loans and advances to customers, banks and trade bills measured at fair value through other comprehensive income				
Advances to customers	–	178,395	–	178,395
Trade bills	–	16,252,504	–	16,252,504
	–	16,430,899	–	16,430,899
Loans and advances to customers, banks and other accounts designated at fair value through profit or loss				
Advances to customers	–	1,550,057	–	1,550,057
Financial investments held for trading				
Debt securities	–	5,084,356	–	5,084,356
Non-trading financial investments mandatorily measured at fair value through profit or loss				
Debt securities	–	350,597	–	350,597
Equity	–	–	98,451	98,451
Investment funds	–	4,741,416	–	4,741,416
Others	–	54,948	–	54,948
	–	5,146,961	98,451	5,245,412

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair value of financial assets and liabilities (continued)

31 December 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	–	109,413,301	–	109,413,301
Equity securities and investment funds	–	19,515	3,143,550	3,163,065
	–	109,432,816	3,143,550	112,576,366
Total financial assets	–	155,342,302	3,242,001	158,584,303
Financial liabilities				
Structured deposits from customers	–	23,066,881	–	23,066,881
Deposits from banks and other financial institutions	–	16,670,876	–	16,670,876
	–	39,737,757	–	39,737,757
Derivative financial instruments				
Forward foreign exchange contracts	–	7,084,269	–	7,084,269
Structured foreign exchange contracts	–	1,837	–	1,837
Currency swaps	–	934,195	–	934,195
FX options	–	176,533	–	176,533
Interest rate swaps	–	7,754,704	–	7,754,704
Commodity swaps	–	36,290	–	36,290
Interest rate futures	–	58	–	58
Equity swaps	–	239,027	–	239,027
	–	16,226,913	–	16,226,913
Trading liabilities	–	58,614	–	58,614
Financial liabilities designated at fair value through profit or loss				
Debt securities in issue	–	1,311,030	–	1,311,030
Total financial liabilities	–	57,334,314	–	57,334,314

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 2023	At 31 December 2022
Financial investments measured at FVTOCI	Discounted cash flow model	Discount rate	7.6%	7.7%–10.2%
– Equity securities and investment funds	Market-comparable approach	Equity value/Sale	1.2-11.6	1.2–12.1
		Marketability discount	28%	28%–30%
	Net asset value	N/A	N/A	N/A
Financial investments at fair value through profit or loss	Market-comparable approach	Price-to-Sales multiples	3.7-34.1	4.0-16.0
– Equity securities				

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

	At 30 June 2023	
	Favourable HK\$'000	(Unfavourable) HK\$'000
Financial investments measured at FVTOCI	453,359	(499,200)
	453,359	(499,200)
	At 30 June 2023	
	Effect recorded directly in profit & loss	
	Favourable HK\$'000	(Unfavourable) HK\$'000
Financial investments at fair value through profit or loss	8,550	(9,813)
	8,550	(9,813)
	At 31 December 2022	
	Effect recorded directly in equity	
	Favourable HK\$'000	(Unfavourable) HK\$'000
Financial investments measured at FVTOCI	301,912	(349,128)
	301,912	(349,128)

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair value of financial assets and liabilities (continued)

	At 31 December 2022 Effect recorded directly in profit & loss	
	Favourable HK\$'000	(Unfavourable) HK\$'000
Financial investments at fair value through profit or loss	9,828	(9,859)
	<u>9,828</u>	<u>(9,859)</u>

The fair values of financial instruments are in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The table above shows the sensitivity of fair values due to parallel movement of plus or minus 10 per cent in reasonably possible alternative assumptions

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 2023 HK\$'000	Addition HK\$'000	Total unrealised losses recorded in equity/income statements HK\$'000	Exchange difference HK\$'000	At 30 June 2023 HK\$'000
Financial assets					
Financial investments measured at FVTOCI					
– Equity securities and investment funds	3,143,550	–	(101,683)	67,278	3,109,145
Financial investments mandatorily measured at fair value through profit or loss					
– Equity securities	98,451	–	(6,002)	–	92,449
Total level 3 financial assets	<u>3,242,001</u>	<u>–</u>	<u>(107,685)</u>	<u>67,278</u>	<u>3,201,594</u>

	At 1 January 2022 HK\$'000	Addition HK\$'000	Total unrealised losses recorded in equity/income statements HK\$'000	Exchange difference HK\$'000	At 31 December 2022 HK\$'000
Financial assets					
Financial investments measured at FVTOCI					
– Equity securities and investment funds	3,235,615	116,382	(34,867)	(173,580)	3,143,550
Financial investments mandatorily measured at fair value through profit or loss					
– Equity securities	–	235,442	(136,991)	–	98,451
Total level 3 financial assets	<u>3,235,615</u>	<u>351,824</u>	<u>(171,858)</u>	<u>(173,580)</u>	<u>3,242,001</u>

During the six months ended 30 June 2023, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (First half of 2022: 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 not measured at fair value on recurring basis 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 obtained from exchange, dealer or independent pricing service vendors or using discounted cash flow technique.

(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 fair values not materially different from their carrying values or approximately equal to their carrying values.

	Note	At 30 June 2023		At 31 December 2022	
		Carrying value HK'000	Fair value HK'000	Carrying value HK'000	Fair value HK'000
Financial investments measured at amortised cost	(21)	<u>120,525,503</u>	<u>117,433,091</u>	<u>113,390,582</u>	<u>110,317,312</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 2023

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Bank premises and properties	475,605	–	–	475,605
Investment properties	209,000	–	–	209,000

Fair value at 31 December 2022

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Bank premises and properties	485,935	–	–	485,935
Investment properties	209,000	–	–	209,000

During the half years ended 30 June 2023 and 30 June 2022, 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 2023. 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	At 30 June 2023 Range	At 31 December 2022 Range	Fair value measurement sensitivity to unobservables input
<i>Investment properties</i>					
- Hong Kong	Investment method	Market yield	2.4% - 2.7%	2.4% - 2.7%	An increase in the market yield, in isolation, would result in a decrease in a fair value measurement.
- Mainland China	Discount cash flow	Risk adjusted discount rate	5.3%	5.3%	An increase in the risk adjusted discount rate, in isolation, would result in a decrease in a fair value measurement.
		Expected market rental growth	3.5% - 4.0%	3.5% - 4.0%	An increase in the expected market rental growth will result in a favourable movement in the fair value of the asset.
		Expected occupancy rate	65.0% - 95.0%	65.0% - 95.0%	An increase in the expected occupancy rate will result in a favourable movement in the fair value of the asset.
<i>Bank premises and properties</i>					
- Hong Kong	Direct comparison approach	Discount on characteristic of the properties	(19.8)% - 1.3%	(19.8)% - 1.3%	An increase in the negative/positive discount on characteristic of the properties will result in a unfavourable/favourable movement in the fair value of the asset.
- Mainland China method 1	Discount cash flow	Risk adjusted discount rate	4.5%	4.5%	An increase in the risk adjusted discount rate, in isolation, would result in a decrease in a fair value measurement.
		Expected market rental growth	4.0% - 4.5%	4.0% - 4.5%	An increase in the expected market rental growth will result in a favourable movement in the fair value of the asset.
		Expected occupancy rate	96.0%	96.0%	An increase in the expected occupancy rate will result in a favourable movement in the fair value of the asset.
- Mainland China method 2	Direct comparison approach	Discount on characteristic of the properties	(3.88)%-1.26%	(3.88)%-1.26%	An increase in the negative/positive discount on characteristic of the properties will result in a unfavourable/favourable movement in the fair value of the asset.

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)*

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

- i) investment method of valuation has assessed the contractual rental income and the expected future market rental income after allowing for potential outgoings at appropriate market yields as perceived in the current 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 2023	485,935
Depreciation charge for the period	(8,065)
Surplus on revaluation	3,697
Exchange adjustment	(5,962)
	<hr/>
At 30 June 2023	<u>475,605</u>
Investment properties:	HK\$'000
At 1 January 2023 and 30 June 2023	<u>209,000</u>
Bank premises and properties:	HK\$'000
At 1 January 2022	597,666
Depreciation charge for the year	(8,393)
Surplus on revaluation	4,115
Exchange adjustment and others	7,814
	<hr/>
At 30 June 2022	<u>601,202</u>
Investment properties:	HK\$'000
At 1 January 2022	145,300
Exchange adjustment	(1,285)
	<hr/>
At 30 June 2022	<u>144,015</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 2023	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 2023	5,292,796	619,557	2,283,215	8,195,568
Transfer to 12-month ECL	7,584	(7,584)	–	–
Transfer to Lifetime ECL not credit-impaired	(103,452)	103,452	–	–
Transfer to Lifetime ECL credit-impaired	(7,352)	(37,097)	44,449	–
Net remeasurement of loss allowance (including exchange adjustments)	(518,725)	219,483	326,414	27,172
New financial assets originated or purchased	720,824	10,634	4,745	736,203
Financial assets that have been derecognised	(484,762)	(77,153)	(5,969)	(567,884)
Write-off	–	–	(312,878)	(312,878)
At 30 June 2023	<u>4,906,913</u>	<u>831,292</u>	<u>2,339,976</u>	<u>8,078,181</u>
Comprising of:				
Advances to customers	4,857,197	831,225	2,339,976	8,028,398
Advances to banks	33,349	–	–	33,349
Trade bills	16,367	67	–	16,434
	<u>4,906,913</u>	<u>831,292</u>	<u>2,339,976</u>	<u>8,078,181</u>

During the period ended 30 June 2023, the gross amounts of HK\$74,149,000 were newly credit-impaired contributing expected credit loss HK\$68,724,000. The gross carrying amounts of HK\$318,088,000 and its expected credit loss of HK\$312,878,000 were written off because the Group had no reasonable expectations of recovering the contractual cash flows on those exposures.

The net remeasurement of ECL includes the changes in probability of default movements and loss given default of the underlying financial instruments adjusted with forward looking factors during the period.

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)

	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
31 December 2022				
Movement in impairment allowances:				
At 1 January 2022	5,462,576	745,908	1,439,567	7,648,051
Transfer to 12-month ECL	12,103	(11,548)	(555)	–
Transfer to Lifetime ECL not credit-impaired	(147,299)	147,299	–	–
Transfer to Lifetime ECL credit-impaired	(126,286)	(227,194)	353,480	–
Net remeasurement of loss allowance (including exchange adjustments)	72,626	12,717	1,520,430	1,605,773
New financial assets originated or purchased	921,992	26,421	44,485	992,898
Financial assets that have been derecognised	(902,916)	(74,046)	(472,380)	(1,449,342)
Write off	–	–	(601,812)	(601,812)
At 31 December 2022	<u>5,292,796</u>	<u>619,557</u>	<u>2,283,215</u>	<u>8,195,568</u>
Comprising of:				
Advances to customers	5,233,473	618,054	2,283,215	8,134,742
Advances to banks	42,124	–	–	42,124
Trade bills	17,199	1,503	–	18,702
	<u>5,292,796</u>	<u>619,557</u>	<u>2,283,215</u>	<u>8,195,568</u>

Due to deteriorating credit risk of PRC property sector, certain exposures were defaulted and classified as credit impaired loans and advances in 2022. Those new credit impaired exposures were about HK\$2,366,465,000 and contributed expected credit loss \$1,162,841,000 as at year end.

A fully secured credit impaired exposure with the gross carrying amount of HK\$4,137,593,000, refinanced by another financial institution and thus its expected credit loss, of HK\$442,213,000, was fully reversed during the year. In 2022, gross carrying amounts of HK\$627,666,000 and its expected credit loss of HK\$601,812,000 were written off because the Group had no reasonable expectations of recovering the contractual cash flows on those exposures.

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 2023	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 2023	2,180	1,506	–	3,686
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)	(1,066)	(611)	–	(1,677)
New financial assets originated or purchased	104	–	–	104
Financial assets that have been derecognised	(375)	–	–	(375)
At 30 June 2023	843	895	–	1,738
31 December 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	(506)	506	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	–	1,000	–	1,000
New financial assets originated or purchased	2,082	–	–	2,082
Financial assets that have been derecognised	(2,338)	(1,683)	–	(4,021)
At 31 December 2022	2,180	1,506	–	3,686

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 2023	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 2023	80,446	–	–	80,446
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)	(1,961)	–	–	(1,961)
New financial assets originated or purchased	27,173	–	–	27,173
Financial assets that have been derecognised	(7,249)	–	–	(7,249)
At 30 June 2023	<u>98,409</u>	<u>–</u>	<u>–</u>	<u>98,409</u>
31 December 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)	(979)	–	–	(979)
New financial assets originated or purchased	19,188	–	–	19,188
Financial assets that have been derecognised	(9,672)	–	–	(9,672)
At 31 December 2022	<u>80,446</u>	<u>–</u>	<u>–</u>	<u>80,446</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 2023	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 2023	135,700	–	116,254	251,954
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)	(2,339)	–	4,005	1,666
New financial assets originated or purchased	36,780	–	–	36,780
Financial assets that have been derecognised	(18,383)	–	–	(18,383)
At 30 June 2023	<u>151,758</u>	<u>–</u>	<u>120,259</u>	<u>272,017</u>

No new financial investment was credit-impaired during the period. As at 30 June 2023, the fair value of the credit-impaired financial investments held by the Group was HK\$15,337,000, of which the expected credit loss was HK\$120,259,000.

31 December 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)	(9,636)	–	111,754	102,118
New financial assets originated or purchased	45,012	–	–	45,012
Financial assets that have been derecognised	(58,933)	–	–	(58,933)
At 31 December 2022	<u>135,700</u>	<u>–</u>	<u>116,254</u>	<u>251,954</u>

During 2022, an issue of an unsecured debt security held by the Group defaulted to repay at the maturity and was classified as credit impaired financial investment. The fair value of the debt security was HK\$28,895,000 of which the expected credit loss was HK\$116,254,000 as at year end.

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 2023	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 2023	53,297	–	–	53,297
Net remeasurement of loss allowance (including exchange adjustments)	20,218	–	–	20,218
New financial assets originated or purchased	927	–	–	927
Financial assets that have been derecognised	(3,917)	–	–	(3,917)
At 30 June 2023	<u>70,525</u>	<u>–</u>	<u>–</u>	<u>70,525</u>
31 December 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)	11,419	–	–	11,419
New financial assets originated or purchased	7,591	–	–	7,591
Financial assets that have been derecognised	(1,779)	–	–	(1,779)
At 31 December 2022	<u>53,297</u>	<u>–</u>	<u>–</u>	<u>53,297</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 2023	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 2023	316,001	10,816	–	326,817
Transfer to 12-month ECL	969	(969)	–	–
Transfer to Lifetime ECL not credit-impaired	(52)	52	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	(79,541)	9,079	–	(70,462)
New loan commitments and financial guarantee contracts originated or purchased	50,114	812	–	50,926
Loan commitments and financial guarantee contracts drawn down or expired	(27,160)	(517)	–	(27,677)
At 30 June 2023	<u>260,331</u>	<u>19,273</u>	<u>–</u>	<u>279,604</u>
	12-month	Lifetime	Lifetime	Total
31 December 2022	ECL	ECL not	ECL	HK\$'000
	HK\$'000	credit- impaired	credit- impaired	HK\$'000
Movement in impairment allowances:				
At 1 January 2022	296,441	11,563	–	308,004
Transfer to 12-month ECL	20	(20)	–	–
Transfer to Lifetime ECL not credit-impaired	(2,695)	2,695	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	(126,308)	2,522	–	(123,786)
New loan commitments and financial guarantee contracts originated or purchased	161,968	4,505	–	166,473
Loan commitments and financial guarantee contracts drawn down or expired	(13,425)	(10,449)	–	(23,874)
31 December 2022	<u>316,001</u>	<u>10,816</u>	<u>–</u>	<u>326,817</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 2023	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	161,896	1,078,459	566,998	924,608	10,234	466,076	939,096	916,443	5,063,810
Fee and commission income	29,702	289,997	111,074	452,053	14	154,336	86,293	35,908	1,159,377
Fee and commission expense	-	(799)	(89)	(113,679)	-	(1,687)	(201)	(2,518)	(118,973)
Net fee and commission income	29,702	289,198	110,985	338,374	14	152,649	86,092	33,390	1,040,404
Net trading income/(expense)	10,008	55,262	60,401	168,357	316,098	10,034	(325,432)	69,158	363,886
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	-	-	-	-	(156,316)	43,873	698	37,190	(74,555)
Dividend income from financial investments	-	-	-	-	-	-	-	20,123	20,123
Other operating income	-	-	61	122	-	3,650	3,909	194,572	202,314
Operating income	201,606	1,422,919	738,445	1,431,461	170,030	676,282	704,363	1,270,876	6,615,982
Operating expenses	(42,570)	(128,401)	(217,835)	(765,556)	(185,521)	(137,206)	(225,734)	(284,315)	(1,987,138)
Operating profit before impairment losses	159,036	1,294,518	520,610	665,905	(15,491)	539,076	478,629	986,561	4,628,844
Net (charge)/reversal for impairment losses	(1,421)	(55,303)	134,247	24,267	6,827	(43)	(160,772)	(304,030)	(356,228)
Operating profit after impairment losses	157,615	1,239,215	654,857	690,172	(8,664)	539,033	317,857	682,531	4,272,616
Net (loss)/gain on disposal of property, plant and equipment	-	-	-	(632)	-	-	-	28	(604)
Net gain on disposal of financial assets designated at fair value through other comprehensive income	-	-	-	-	198,065	-	22,312	-	220,377
Net loss on disposal of financial assets designated at amortised cost	-	-	-	-	(16,649)	-	-	-	(16,649)
Gain on partial disposal of an associate	-	-	-	-	-	-	-	109,871	109,871
Operating profit	157,615	1,239,215	654,857	689,540	172,752	539,033	340,169	792,430	4,585,611
Share of losses of associates	-	-	-	-	-	-	-	(18,389)	(18,389)
Profit before tax	157,615	1,239,215	654,857	689,540	172,752	539,033	340,169	774,041	4,567,222
Segment assets	30,247,607	136,657,401	81,625,253	106,156,616	224,122,987	21,336,113	133,545,972	193,822,562	927,514,511
Investments in associates	-	-	-	-	-	-	-	153,076	153,076
Total assets	30,247,607	136,657,401	81,625,253	106,156,616	224,122,987	21,336,113	133,545,972	193,975,638	927,667,587
Total liabilities	29,716,347	135,842,836	81,181,706	107,547,274	199,977,042	45,492,581	116,468,309	64,552,678	780,778,773
Capital expenditure	-	-	-	47,758	52	20	3,516	21,133	72,479
Depreciation and amortisation charge	3,267	4,391	14,218	111,542	7,215	3,717	27,794	108,872	281,016

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
Net (charge)/reversal for impairment losses	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)
5.2 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 2023

	Hong Kong HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
Net interest income	4,124,792	939,018	5,063,810
Fee and commission income	1,073,084	86,293	1,159,377
Fee and commission expense	(118,772)	(201)	(118,973)
Net fee and commission income	954,312	86,092	1,040,404
Other income/(expenses)	832,592	(320,824)	511,768
Profit before tax	4,225,373	341,849	4,567,222
Total assets	794,127,713	133,539,874	927,667,587
Total liabilities	664,317,947	116,460,826	780,778,773
Contingent liabilities and commitments	177,334,702	48,743,315	226,078,017
Capital expenditure during the period	68,963	3,516	72,479

For the six months ended 30 June 2022

	Hong Kong HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
Net interest income	3,094,247	1,341,246	4,435,493
Fee and commission income	1,098,292	64,958	1,163,250
Fee and commission expense	(84,009)	(3,512)	(87,521)
Net fee and commission income	1,014,283	61,446	1,075,729
Other income/(expenses)	570,742	(382,975)	187,767
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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

6 Net interest income

	30 June 2023 HK\$'000	30 June 2022 HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	664,589	148,177
Placements with banks and other financial institutions	2,813,524	465,478
Advances and other accounts	9,575,802	5,104,119
Financial investments measured at fair value through other comprehensive income	1,955,932	1,249,819
Financial investments measured at amortised cost	1,500,138	711,537
	<u>16,509,985</u>	<u>7,679,130</u>
Interest expense on:		
Deposits from banks and other financial institutions	1,476,805	998,814
Deposits from customers	9,507,529	1,965,927
Certificates of deposit issued	59,630	13,944
Debt securities in issue	392,708	253,293
Lease liabilities	9,503	11,659
	<u>11,446,175</u>	<u>3,243,637</u>
Net interest income	<u><u>5,063,810</u></u>	<u><u>4,435,493</u></u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
7 Net fee and commission income

	30 June 2023	30 June 2022
	HK\$'000	HK\$'000
Loans, overdrafts and guarantees	519,356	551,592
Securities and brokerage	173,390	219,219
Trade finance	35,949	48,650
Credit card	162,532	113,440
Remittance	61,156	61,603
Insurance	112,860	71,463
Other retail and commercial banking services	15,436	16,708
Securities arrangement fee	16,194	27,679
Others	62,504	52,896
	<hr/>	<hr/>
Fee and commission income	1,159,377	1,163,250
Fee and commission expense	(118,973)	(87,521)
	<hr/>	<hr/>
Net fee and commission income	<u>1,040,404</u>	<u>1,075,729</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	555,306	600,242
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	24,290	28,727
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 card	162,532	113,440
– term loans	94,691	140,817
– syndication loans	282,358	304,365
– securities and brokerage	173,390	219,219
Timing of fee and commission income		
– A point in time	881,023	924,554
– Over time	278,354	238,696

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

8 Net trading income

	30 June 2023	30 June 2022
	HK\$'000	HK\$'000
Debt securities – Financial assets and liabilities held for trading	96,000	19,631
Derivatives	(207,865)	(153,891)
Foreign exchange and foreign exchange products	500,821	359,366
	388,956	225,106
Loss from hedging activities		
Fair value hedges		
– Net gain/(loss) on hedged items attributable to the hedged risk	231,054	(1,660,283)
– Net (loss)/gain on hedging instruments	(256,124)	1,658,768
	(25,070)	(1,515)
Total net trading income	363,886	223,591

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

	30 June 2023	30 June 2022
	HK\$'000	HK\$'000
Net loss from financial instruments designated at FVTPL	(156,579)	(78,550)
Net gain/(loss) from financial instruments mandatorily measured at FVTPL (other than those included in net trading income)	82,024	(207,691)
Total net loss on financial assets and liabilities at fair value through profit or loss	(74,555)	(286,241)

10 Dividend income from financial investments

	30 June 2023	30 June 2022
	HK\$'000	HK\$'000
Dividend income from unlisted equity securities at fair value through other comprehensive income	970	1,180
Dividend income from listed financial assets at fair value through profit or loss	19,153	43,525
Total dividend income from financial investments	20,123	44,705

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

11 Other operating income

	30 June 2023 HK\$'000	30 June 2022 HK\$'000
Management fee income	188,850	188,850
Rental income	7,632	7,682
Others	5,832	9,180
	<u>202,314</u>	<u>205,712</u>

12 Operating expenses

	30 June 2023 HK\$'000	30 June 2022 HK\$'000
Staff costs		
– Salaries and other costs	1,175,052	1,042,252
– Retirement benefit costs	52,190	53,962
	<u>1,227,242</u>	<u>1,096,214</u>
Premises and equipment expenses, excluding depreciation and amortisation		
– Rental of premises	15,535	19,329
– Others	122,178	95,709
	<u>137,713</u>	<u>115,038</u>
Depreciation and amortisation expenses		
– Depreciation of right-of-use assets	221,331	231,013
– Depreciation of other fixed assets	55,953	51,623
– Amortisation of intangible assets	3,732	2,991
	<u>281,016</u>	<u>285,627</u>
Auditor's remuneration	3,240	3,240
General administration expenses	34,503	24,009
Business promotion expenses	62,881	48,556
Communication expenses	69,868	49,297
Other operating expenses	170,675	157,909
	<u>1,987,138</u>	<u>1,779,890</u>

Note: Expenses relating to short-term leases is HK\$8,587,000 (first half of 2022: HK\$11,199,000). Expenses relating to low value assets is HK\$9,000 (first half of 2022: HK\$10,000). Total cash outflow for leases is HK\$250,919,000 (first half of 2022: HK\$258,869,000).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

13 Net (charge)/reversal for impairment losses

	30 June 2023 HK\$'000	30 June 2022 HK\$'000
Net (charge)/reversal for impairment losses on loans and advances	(343,920)	209,188
Net charge for impairment losses on other financial assets, loan commitments and financial guarantees	(12,308)	(27,766)
	<u>(356,228)</u>	<u>181,422</u>

14 Net loss on disposal of property, plant and equipment

	30 June 2023 HK\$'000	30 June 2022 HK\$'000
Net loss on disposal of property, plant and equipment	(608)	(1,895)
Write-back of revaluation deficits of bank premises	4	30
	<u>(604)</u>	<u>(1,865)</u>

15 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 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 2023 HK\$'000	30 June 2022 HK\$'000
Current tax – Provision for Hong Kong profits tax for the period	670,959	650,133
– Provision for overseas tax for the period	35,650	230,733
Over-provision in respect of prior periods	(1,240)	(696)
Deferred taxation	(23,137)	(29,240)
	<u>682,232</u>	<u>850,930</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 2023	30 June 2022
	HK\$'000	HK\$'000
Profit before tax	4,567,222	4,566,899
Calculated at a tax rate of 16.5% (2022: 16.5%)	753,592	753,538
Effect of different tax rates in other countries and regions	69,681	101,537
Effect of income not subject to tax	(230,403)	(57,562)
Effect of expenses not deductible for tax purposes	68,818	27,952
Over-provision in respect of prior periods	(1,240)	(696)
Tax effect of tax losses not recognised	19,758	22,542
Tax effect of share of results of associates	3,034	5,899
Other	(1,008)	(2,280)
	<u>682,232</u>	<u>850,930</u>
Tax charge	<u>682,232</u>	<u>850,930</u>

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 2023 (first half of 2022: Nil).

16.2 Distributions to holders of Additional Tier 1 Capital Securities

	30 June 2023	30 June 2022
	HK\$'000	HK\$'000
Distributions paid on:		
– US\$1 billion undated non-cumulative subordinated additional tier 1 capital securities	129,206	128,495
– US\$2.536 billion undated non-cumulative subordinated additional tier 1 capital securities	487,410	486,185
	<u>616,616</u>	<u>614,680</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

17 Cash and balances with banks and other financial institutions

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Cash on hand	346,441	402,576
Balances with central banks	7,337,478	7,472,124
Balances with other banks and financial institutions	36,962,308	37,301,091
Placements with banks and other financial institutions maturing within one month	58,819,327	82,146,556
Less: impairment allowance		
– 12-month ECL	(4,127)	(6,488)
	<u>103,461,427</u>	<u>127,315,859</u>

18 Placements with banks and other financial institutions

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Placements with banks and other financial institutions maturing between one and twelve months	72,340,884	61,335,032
Less: impairment allowance		
– 12-month ECL	(66,398)	(46,809)
	<u>72,274,486</u>	<u>61,288,223</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**19 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

19 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 2023 and 31 December 2022:

As at 30 June 2023	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	743,150,187	10,898,339	(9,956,323)
– OTC currency options purchased	37,456,072	229,570	(50)
– OTC currency options written	37,724,836	3	(205,311)
– Structured foreign exchange instruments	3,593,739	110	(1,504)
Total foreign exchange derivatives		<u>11,128,022</u>	<u>(10,163,188)</u>
b) Interest rate derivatives			
– Interest rate swaps	249,772,142	4,769,979	(4,634,703)
– Interest rate futures	7,835	99	(132)
Total interest rate derivatives		<u>4,770,078</u>	<u>(4,634,835)</u>
c) Equity derivatives			
– Equity swaps	1,567,070	–	(39,931)
Total equity derivatives		<u>–</u>	<u>(39,931)</u>
Total derivative assets/(liabilities) held for trading		<u>15,898,100</u>	<u>(14,837,954)</u>
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	37,260,424	1,197,346	(165,019)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	7,443,583	129,828	(21,448)
– Commodity swaps	17,691,240	1,417,535	(96,207)
		<u>1,547,363</u>	<u>(117,655)</u>
Total derivative assets/(liabilities) held for hedging		<u>2,744,709</u>	<u>(282,674)</u>
Total recognised derivative assets/(liabilities)		<u>18,642,809</u>	<u>(15,120,628)</u>

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

As at 31 December 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	823,740,395	7,902,260	(8,018,464)
– OTC currency options purchased	53,076,124	215,666	(15)
– OTC currency options written	63,080,582	32	(176,518)
– Structured foreign exchange instruments	7,415,558	128	(1,837)
Total foreign exchange derivatives		<u>8,118,086</u>	<u>(8,196,834)</u>
b) Interest rate derivatives			
– Interest rate swaps	213,213,594	7,392,976	(7,266,294)
– Interest rate futures	89,669	162	(58)
Total interest rate derivatives		<u>7,393,138</u>	<u>(7,266,352)</u>
c) Equity derivatives			
– Equity swaps	1,559,460	–	(239,027)
Total equity derivatives		<u>–</u>	<u>(239,027)</u>
Total derivative assets/(liabilities) held for trading		<u>15,511,224</u>	<u>(15,702,213)</u>
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	43,960,104	1,751,187	(470,431)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	4,912,299	138,237	(17,979)
– Commodity swaps	16,670,876	296,565	(36,290)
		<u>434,802</u>	<u>(54,269)</u>
Total derivative assets/(liabilities) held for hedging		<u>2,185,989</u>	<u>(524,700)</u>
Total recognised derivative assets/(liabilities)		<u><u>17,697,213</u></u>	<u><u>(16,226,913)</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

19 Derivative financial instruments (continued)

Fair value hedges

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

Fair value hedges are used by the Group to protect it 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 measured at fair value through other comprehensive income. The Group uses interest rate swaps to hedge interest rate risk.

The table below summarises the contractual/notional amounts of the hedging instruments as at 30 June 2023 and 31 December 2022 by remaining contractual maturity.

	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	Total HK\$'000
30 June 2023						
Interest rate swaps	<u>-</u>	<u>-</u>	<u>6,189,466</u>	<u>17,723,447</u>	<u>13,347,511</u>	<u>37,260,424</u>
	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	Total HK\$'000
31 December 2022						
Interest rate swaps	<u>389,865</u>	<u>721,673</u>	<u>2,779,738</u>	<u>21,381,975</u>	<u>18,686,853</u>	<u>43,960,104</u>

The amounts relating to items designated as hedging instruments are as follows:

	Fair value		
	Contractual/ notional amounts HK\$'000	Assets HK\$'000	Liabilities HK\$'000
30 June 2023			
Derivative financial instruments			
– interest rate swaps	<u>37,260,424</u>	<u>1,197,346</u>	<u>(165,019)</u>
	Fair value		
	Contractual/ notional amounts HK\$'000	Assets HK\$'000	Liabilities HK\$'000
31 December 2022			
Derivative financial instruments			
– interest rate swaps	<u>43,960,104</u>	<u>1,751,187</u>	<u>(470,431)</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

19 Derivative financial instruments (continued)

Fair value hedges (continued)

The amounts relating to hedged items are as follows:

	Carrying amounts HK\$'000	Accumulated amount of fair value hedge adjustment included in the carrying amount HK\$'000	Change in value used as the basis for recognising hedge ineffectiveness HK\$'000
30 June 2023			
Investments in securities			
– Debt securities	<u>30,827,266</u>	<u>(1,040,353)</u>	<u>221,507</u>
		Accumulated	Change in
		amount of fair	value used as
		value hedge	the basis
		adjustment	for recognising
		included in	hedge
		the carrying	ineffectiveness
		amount	HK\$'000
31 December 2022			
Investments in securities			
– Debt securities	<u>35,101,093</u>	<u>(1,261,859)</u>	<u>(1,655,023)</u>

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 consolidated income statement during the period is presented as follows:

	30 June 2023 HK\$'000	30 June 2022 HK\$'000
Loss arising from fair value hedge, net:		
– Hedging instruments	(256,124)	1,658,768
– Hedged items attributable to the hedged risk	<u>231,054</u>	<u>(1,660,283)</u>
	<u>(25,070)</u>	<u>(1,515)</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

19 Derivative financial instruments (continued)

Cash flow hedges

Cash flow hedge consists of interest rate swaps and commodity swaps entered into that are used to protect the Group against exposures to variability of 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 consolidated income statement when the forecast cash flows affect the consolidated income statement. The gains and losses on ineffective portions of such derivatives are recognised immediately in the consolidated income statement. During the period, there was no ineffectiveness recognised in the consolidated income statement that arose from cash flow hedges (First half of 2022: Nil).

The table below summarises the contractual/notional amounts of the hedging instruments as at 30 June 2023 and 31 December 2022 by remaining contractual maturity.

	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	Total HK\$'000
30 June 2023						
Interest rate swaps	2,507,312	–	3,055,787	1,880,484	–	7,443,583
Commodity swaps	<u>3,595,780</u>	<u>1,150,650</u>	<u>12,944,810</u>	<u>–</u>	<u>–</u>	<u>17,691,240</u>
	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	Total HK\$'000
31 December 2022						
Interest rate swaps	–	–	1,247,568	3,664,731	–	4,912,299
Commodity swaps	<u>–</u>	<u>1,138,721</u>	<u>15,532,155</u>	<u>–</u>	<u>–</u>	<u>16,670,876</u>

The amounts relating to items designated as hedging instruments are as follows:

	Fair value		
	Contractual/ notional amounts HK\$'000	Assets HK\$'000	Liabilities HK\$'000
30 June 2023			
Derivative financial instruments			
– interest rate swaps	7,443,583	129,828	(21,448)
– commodity swaps	<u>17,691,240</u>	<u>1,417,535</u>	<u>(96,207)</u>
	Fair value		
	Contractual/ notional amounts HK\$'000	Assets HK\$'000	Liabilities HK\$'000
31 December 2022			
Derivative financial instruments			
– interest rate swaps	4,912,299	138,237	(17,979)
– commodity swaps	<u>16,670,876</u>	<u>296,565</u>	<u>(36,290)</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
19 Derivative financial instruments (continued)
Cash flow hedges (continued)

The amounts relating to hedged items are as follows:

				Balance in cash flow hedge reserve arising from hedging relationships for which hedge accounting is no longer applied
	Carrying amounts HK\$'000	Balance in the cash flow hedge reserve HK\$'000	Change in value used as the basis for recognising hedge ineffectiveness HK\$'000	HK\$'000
30 June 2023				
Asset				
– Loans to customers	783,535	(16,216)	1,763	–
Liabilities				
– Deposits from banks and other financial institutions	17,691,240	(139,565)	14,139	–
– Deposits from customers	<u>6,660,048</u>	<u>125,328</u>	<u>(14,266)</u>	–
				Balance in cash flow hedge reserve arising from hedging relationships for which hedge accounting is no longer applied
	Carrying amounts HK\$'000	Balance in the cash flow hedge reserve HK\$'000	Change in value used as the basis for recognising hedge ineffectiveness HK\$'000	HK\$'000
31 December 2022				
Asset				
– Loans to customers	779,730	(17,979)	(17,979)	–
Liabilities				
– Deposits from banks and other financial institutions	16,670,876	(153,704)	16,215	–
– Deposits from customers	<u>4,132,569</u>	<u>139,594</u>	<u>300,901</u>	–

During the period, amounted to HK\$98,278,000 previously recognised in equity under the cash flow hedge reserve was transferred to the condensed consolidated income statement and included in the net trading and the net interest income (first half of 2022: HK\$184,186,000).

There were no transactions for which cash flow hedge accounting had to be ceased in the first half of 2023 as a result of the highly probable cash flows no longer being expected to occur.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

19 Derivative financial instruments (continued)

Net investment hedge

The Group uses foreign currency deposits to protect against exposures to variability in foreign currency exposures arises from net investment in subsidiaries.

	Hedged amount HK\$'000	Balance in the net investment hedge reserve HK\$'000	Change in value used as the basis for recognising hedge ineffectiveness HK\$'000	Balance in net investment hedge reserve arising from hedging relationships for which hedge accounting is no longer applied HK\$'000	Hedge ineffectiveness recognised in profit and loss HK\$'000
30 June 2023					
Investments in subsidiaries	<u>6,293,499</u>	<u>439,877</u>	<u>88,172</u>	<u>-</u>	<u>(1,286)</u>
31 December 2022					
Investments in subsidiaries	<u>6,293,499</u>	<u>351,705</u>	<u>397,472</u>	<u>-</u>	<u>56,095</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
20 Advances and other accounts
20.1 Loans and advances to customers, banks and other accounts

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Loans and advances to customers, banks and other accounts measured at amortised cost		
– Advances to customers	452,686,056	437,288,721
– Advances to banks	13,271,999	12,876,246
– Trade bills	4,099,515	5,082,844
	<hr/>	<hr/>
Gross loans and advances to customers, banks and other accounts measured at amortised cost	470,057,570	455,247,811
Accrued interest	1,405,835	1,243,883
	<hr/>	<hr/>
	471,463,405	456,491,694
Less: Impairment allowances		
– 12-month ECL	(4,906,913)	(5,292,796)
– Lifetime ECL not credit-impaired	(831,292)	(619,557)
– Lifetime ECL credit-impaired	(2,339,976)	(2,283,215)
	<hr/>	<hr/>
	463,385,224	448,296,126
Loans and advances to customers, banks and other accounts measured at fair value through other comprehensive income		
– Advances to customers	142,494	178,395
– Trade bills	11,850,185	16,252,504
	<hr/>	<hr/>
	475,377,903	464,727,025
Loans and advances to customers, banks and other accounts designated at fair value through profit or loss		
– Advances to customers	1,513,526	1,550,057
	<hr/>	<hr/>
	476,891,429	466,277,082
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

20 Advances and other accounts (continued)

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

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Gross carrying amount of the credit-impaired loans and advances	3,761,784	3,921,592
Impairment allowances made in respect of such loans	2,339,976	2,283,215
Gross carrying amount of the credit-impaired loans and advances as a percentage of total gross loans and advances	0.78%	0.83%
Market value of collateral	<u>10,408,628</u>	<u>9,588,379</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 0.83% as at 30 June 2023 (31 December 2022: 0.89%).

There were no advances to banks and trade bills classified as stage 3 as at 30 June 2023 (31 December 2022: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
20 Advances and other accounts (continued)
20.2 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 for over three months 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 2023						
Overdue for:						
Six months or less but over three months	190,206	0.0	67,168	51,663	138,543	130,978
One year or less but over six months	1,223,629	0.3	3,153,113	590,585	633,044	574,999
Over one year	1,459,463	0.3	5,388,218	797,904	661,559	1,204,725
	<u>2,873,298</u>	<u>0.6</u>	<u>8,608,499</u>	<u>1,440,152</u>	<u>1,433,146</u>	<u>1,910,702</u>
As at 31 December 2022						
Overdue for:						
Six months or less but over three months	1,281,426	0.3	2,428,567	643,359	638,067	540,735
One year or less but over six months	450,481	0.1	74,571	47,604	402,877	306,336
Over one year	1,346,324	0.3	5,285,112	1,011,121	335,203	979,354
	<u>3,078,231</u>	<u>0.7</u>	<u>7,788,250</u>	<u>1,702,084</u>	<u>1,376,147</u>	<u>1,826,425</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 which were overdue for over 3 months as at 30 June 2023 and 31 December 2022.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

20 Advances and other accounts (continued)

20.3 Other overdue assets

	30 June 2023		31 December 2022	
	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	3,792	-	5,232	-
One year or less but over six months	11,413	-	20,269	-
Over one year	102,129	-	139,599	-
	<u>117,334</u>	<u>-</u>	<u>165,100</u>	<u>-</u>

Other assets refer to trade bills and receivables.

20.4 Rescheduled advances

	30 June 2023 HK\$'000	% of advances to customers	31 December 2022 HK\$'000	% of advances to customers
Rescheduled advances (excluding overdue loans over three months)	40,488	0.01	42,678	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 20.2 above.

There were no rescheduled advances to banks or other assets as at 30 June 2023 and 31 December 2022.

20.5 Repossessed assets

As at 30 June 2023, for certain credit-impaired loans, the Group obtained three (31 December 2022: two) repossessed assets by taking possession of collateral held as security with total current market value of HK\$65,720,000 (31 December 2022: HK\$8,625,500). 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.

20.6 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 2023 (31 December 2022: Nil). No collateral has been sold or repledged by the Group as at 30 June 2023 and 31 December 2022. The transactions are conducted on terms that are usual and customary to standard lending activities.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
21 Financial investments

	30 June 2023				
	Trading assets HK\$'000	Non-trading financial investments mandatorily measured at FVTPL HK\$'000	Measured at FVOCI HK\$'000	Measured at amortised cost HK\$'000	Total HK\$'000
Debt securities:					
– Treasury bills	2,985,545	4,691	16,333,159	49,400,010	68,723,405
– Certificates of deposit held	789,920	–	371,692	5,897,043	7,058,655
– Others	601,862	157,512	88,809,455	65,228,450	154,797,279
Equity securities	–	92,449	225,633	–	318,082
Investment funds	–	4,724,141	2,896,471	–	7,620,612
Others	–	51,531	–	–	51,531
Total financial investments	<u>4,377,327</u>	<u>5,030,324</u>	<u>108,636,410</u>	<u>120,525,503</u>	<u>238,569,564</u>
Financial investments are analysed by category of issuer as follows:					
– Central governments and central banks	3,124,758	10,865	29,242,560	67,887,004	100,265,187
– Public sector entities	–	–	1,834,746	7,123,828	8,958,574
– Banks and other financial institutions	1,108,327	4,840,746	24,503,469	24,419,112	54,871,654
– Corporate entities	144,242	178,713	53,055,635	21,095,559	74,474,149
	<u>4,377,327</u>	<u>5,030,324</u>	<u>108,636,410</u>	<u>120,525,503</u>	<u>238,569,564</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Financial investments (continued)

	31 December 2022				
	Trading assets HK\$'000	Non-trading financial investments mandatorily measured at FVTPL HK\$'000	Measured at FVOCI HK\$'000	Measured at amortised cost HK\$'000	Total HK\$'000
Debt securities:					
– Treasury bills	1,546,858	43,698	14,641,466	64,218,759	80,450,781
– Certificates of deposit held	3,442,419	–	7,072,754	4,525,190	15,040,363
– Others	95,079	306,899	87,699,081	44,646,633	132,747,692
Equity securities	–	98,451	216,506	–	314,957
Investment funds	–	4,741,416	2,946,559	–	7,687,975
Others	–	54,948	–	–	54,948
Total financial investments	5,084,356	5,245,412	112,576,366	113,390,582	236,296,716
Financial investments are analysed by category of issuer as follows:					
– Central governments and central banks	1,564,764	46,600	28,356,992	68,564,812	98,533,168
– Public sector entities	–	29,498	2,184,443	1,941,927	4,155,868
– Banks and other financial institutions	3,486,265	4,886,038	32,551,168	20,950,160	61,873,631
– Corporate entities	33,327	283,276	49,483,763	21,933,683	71,734,049
	5,084,356	5,245,412	112,576,366	113,390,582	236,296,716

22 Investment properties

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Carrying amount at 1 January	209,000	145,300
Transferred from bank premises and properties	–	105,213
Transferred out to bank premises and properties	–	(22,057)
Net revaluation loss	–	(17,141)
Exchange difference	–	(2,315)
Carrying amount at 30 June/31 December	209,000	209,000

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
23 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 asset premises HK\$'000	Right-of-use asset furniture and equipment HK\$'000	Total HK\$'000
At 31 December 2022 and 1 January 2023:						
Cost or valuation	704,182	436,577	635,309	2,695,938	90,466	4,562,472
Accumulated depreciation and impairment	(218,247)	(360,512)	(452,622)	(1,712,301)	(61,226)	(2,804,908)
At 1 January 2023	485,935	76,065	182,687	983,637	29,240	1,757,564
Additions	-	2,885	20,098	45,406	298	68,687
Disposals	-	(581)	(3,553)	-	(9,991)	(14,125)
Revaluation	3,697	-	-	-	-	3,697
Depreciation provided during the period	(8,065)	(16,801)	(31,087)	(213,232)	(8,099)	(277,284)
Exchange rate and others	(5,962)	-	2,379	(2,036)	-	(5,619)
Net book value at 30 June 2023	475,605	61,568	170,524	813,775	11,448	1,532,920
At 30 June 2023:						
Cost or valuation	721,391	433,364	643,032	2,736,917	80,773	4,615,477
Accumulated depreciation and impairment	(245,786)	(371,796)	(472,508)	(1,923,142)	(69,325)	(3,082,557)
Net book value at 30 June 2023	475,605	61,568	170,524	813,775	11,448	1,532,920

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

23 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 Asset Premises HK\$'000	Right-of-use Asset Furniture and equipment HK\$'000	Total HK\$'000
At 31 December 2021 and 1 January 2022:						
Cost or valuation	913,457	434,183	606,304	2,593,406	79,780	4,627,130
Accumulated depreciation and impairment	(315,791)	(339,418)	(427,664)	(1,301,542)	(38,220)	(2,422,635)
At 1 January 2022	597,666	94,765	178,640	1,291,864	41,560	2,204,495
Additions	-	17,095	64,487	135,833	21,077	238,492
Transfer in	22,057	-	-	-	-	22,057
Transfer out	(105,213)	-	-	-	-	(105,213)
Disposals	-	(4,583)	(16,861)	(3,042)	(10,390)	(34,876)
Revaluation	109,216	-	-	-	-	109,216
Depreciation provided during the year	(16,259)	(31,212)	(57,718)	(435,680)	(23,007)	(563,876)
Exchange rate and others	(121,532)	-	14,139	(5,338)	-	(112,731)
Net book value at 31 December 2022	485,935	76,065	182,687	983,637	29,240	1,757,564
At 31 December 2022:						
Cost or valuation	704,182	436,577	635,309	2,695,938	90,466	4,562,472
Accumulated depreciation and impairment	(218,247)	(360,512)	(452,622)	(1,712,301)	(61,226)	(2,804,908)
Net book value at 31 December 2022	485,935	76,065	182,687	983,637	29,240	1,757,564

(b) Right-of-use assets

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Right-of-use assets – Premises, with remaining lease term of:		
– Not later than 1 year	73,264	40,625
– Later than 1 year and not later than 2 years	162,449	153,752
– Later than 2 years and not later than 5 years	501,107	707,593
– More than 5 years	76,955	81,667
	813,775	983,637
Right-of-use assets – Others	11,448	29,240
	825,223	1,012,877

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
24 Other assets

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Interest receivable	4,889,096	3,821,149
Prepayments	532,305	537,201
Settlement accounts	755,528	896,824
Margin deposits paid	5,656,530	3,634,340
Factoring	102,223	180,598
Others	1,117,336	1,664,280
	13,053,018	10,734,392
Less: impairment allowances for other assets		
– 12-month ECL	(45,442)	(42,509)
– Lifetime ECL credit-impaired	(24,580)	(24,817)
	12,982,996	10,667,066

25 Deposits from banks and other financial institutions

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Deposits from banks and other financial institutions		
– Measured at amortised cost	125,739,852	145,669,011
– Designated at fair value through profit or loss	17,691,240	16,670,876
	143,431,092	162,339,887

In respect of repurchase and securities lending transactions, the fair value of collateral which were permitted to be sold or repledged from the Group was HK\$35,808,942,000 as at 30 June 2023 (2022: HK\$16,855,975,000). The transactions are conducted on terms that are usual and customary to standard lending activities.

26 Deposits from customers

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Demand deposits and current accounts	31,007,798	39,904,840
Savings deposits	145,628,033	131,654,936
Time, call and notice deposits		
– Measured at amortised cost	384,817,978	371,212,462
– Designated at fair value through profit or loss	21,853,274	23,066,881
	583,307,083	565,839,119

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

27 Deferred income tax assets

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

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
At 1 January	2,060,665	957,381
Credited to the condensed consolidated income statement (Debited)/credited to equity	23,137 (159,340)	257,480 894,700
Exchange difference and other adjustment	(25,315)	(48,896)
At 30 June/31 December	<u>1,899,147</u>	<u>2,060,665</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.

At the end of the reporting period, the Group has unused tax losses of HK\$425,830,000 (31 December 2022: HK\$48,365,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$257,720,000 (31 December 2022: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$168,110,000 (31 December 2022: HK\$48,365,000) due to the unpredictability of future profit streams. Included in unused tax losses are losses of HK\$257,720,000 (31 December 2022: Nil) with expiry dates within 5 years. Other losses may be carried forward indefinitely.

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

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Net deferred income tax assets recognised in the condensed consolidated statement of financial position	<u>1,899,147</u>	<u>2,060,665</u>
At 30 June/31 December	<u>1,899,147</u>	<u>2,060,665</u>

28 Debt securities in issue

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Debt securities in issue		
– Measured at amortised cost	15,807,826	17,535,578
– Designated at fair value through profit or loss	1,473,595	1,311,030
	<u>17,281,421</u>	<u>18,846,608</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
29 Other liabilities

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Interest payable	7,531,971	5,195,413
Salaries and welfare payable	645,198	651,790
Settlement accounts	3,016,987	3,560,283
Margin deposits received	4,123,175	1,186,802
Factoring	102,223	180,598
Lease liabilities	844,994	1,035,238
Others	1,230,450	1,665,230
	17,494,998	13,475,354
Impairment allowances for loan commitment and financial guarantees		
– 12-month ECL	260,331	316,001
– Lifetime ECL not credit-impaired	19,273	10,816
	17,774,602	13,802,171

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period ended 30 June 2023 (31 December 2022: Nil).

29.1 Lease liabilities

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

As at 30 June 2023	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	80,189	146,477	541,648	76,680	844,994
As at 31 December 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	36,574	156,229	761,382	81,053	1,035,238

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

30 Share capital

	Number of shares (in thousands)	Ordinary shares HK\$'000
At 1 January 2022, 30 June 2022, 1 January 2023 & 30 June 2023	<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.

31 Additional equity instruments

	30 June 2023 HK\$'000	31 December 2022 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 "US\$2.536 billion Additional Tier 1 Capital Securities") in the aggregate amount of US\$2.536 billion (equivalent to approximately HK\$19,897 million net of related issuance costs). The US\$2.536 billion Additional Tier 1 Capital Securities bear a 4.90% distribution until the first call date on 21 March 2023. If the US\$2.536 billion 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 US\$2.536 billion 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 US\$2.536 billion Additional Tier 1 Capital Securities) and the distribution cancelled shall not be cumulative. In addition, the Bank must cancel distribution payment (subject to the requirements set out in the terms and conditions of the US\$2.536 billion Additional Tier 1 Capital Securities) if (a) the distribution scheduled to be paid together with other distributions scheduled to be paid on any parity obligations during the Bank's then current fiscal year would 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**31 Additional equity instruments (continued)**

On 21 March 2023, the Bank restated US\$2.536 billion Additional Tier 1 Capital Securities. The optional call dates have been changed to 21 March 2028 and any subsequent distribution payment date thereafter. The US\$2.536 billion Additional Tier 1 Capital Securities bear a 5.8% distribution until the revised first call date on 21 March 2028. If the US\$2.536 billion 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 (2.2192% per annum) every 5 years. The US\$2.536 billion 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. The Bank has the right to cancel distribution payment (subject to the requirements set out in the terms and conditions of the US\$2.536 billion Additional Tier 1 Capital Securities) and the distribution cancelled shall not be cumulative. In addition, the Bank must cancel distribution payment (subject to the requirements set out in the terms and conditions of the US\$2.536 billion Additional Tier 1 Capital Securities) if (a) the distribution scheduled to be paid together with other distributions scheduled to be paid on any parity obligations during the Bank’s then current fiscal year would 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.

On 21 July 2021, the Bank issued Basel III-compliant Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the “US\$1 billion Additional Tier 1 Capital Securities”) in the aggregate amount of US\$1 billion (equivalent to approximately HK\$7.771 billion net of related issuance costs). The US\$1 billion Additional Tier 1 Capital Securities bear a 3.3% distribution until the first call date on 21 July 2026. If the US\$1 billion 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 US\$1 billion 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 US\$1 billion Additional Tier 1 Capital Securities) and the distribution cancelled shall not be cumulative. In addition, the Bank must cancel distribution payment (subject to the requirements set out in the terms and conditions of the US\$1 billion Additional Tier 1 Capital Securities) if (a) the distribution scheduled to be paid together with other distributions scheduled to be paid on any parity obligations during the Bank’s then current fiscal year would 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 the US\$1 billion Additional Tier 1 Capital Securities from 21 July 2026 or any subsequent distribution payment date thereafter.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

31 Additional equity instruments (continued)

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.

32 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 the People’s Republic of China (“PRC”). This reserve is used to offset accumulated losses or increase in capital.

As at 30 June 2023, the Group is not required to make “Regulatory Reserve” (31 December 2022: 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.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
33 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.

33.1 Ultimate holding company

	For the six months ended	
	30 June 2023	30 June 2022
	HK\$'000	HK\$'000
Interest income	1,947,540	290,595
Interest expense ⁴	685,949	389,323
Net operating income/(loss) ^{1,2,5}	228,630	(189,105)
Operating expenses ^{3,4}	5,241	3,265
	As at	
	30 June	31 December
	2023	2022
	HK\$'000	HK\$'000
Amounts due from ⁶	97,137,554	88,100,460
Amounts due to ^{4,6}	89,798,355	131,315,530

1. In accordance with the agreements dated 13 November 2020 and 20 October 2022, management fee income was received from the Hong Kong Branch of Industrial and Commercial Bank of China Limited (the "Branch") for the provision of services such as accounting and budgeting, internal audit, marketing and back office settlement and clearing.
2. In accordance with the custodian and trustee services agreement dated 4 September 2007 and the supplemental custodian and trustee services agreements dated 16 May 2008, 31 December 2009 and 19 January 2015, services fees were paid by the ultimate holding company to the Group for providing custodian, settlement and clearing services in relation to the investments outside the PRC in certain investment products by the customers of the ultimate holding company in connection with the Qualified Domestic Institutional Investor Scheme of the PRC.
3. In accordance with the service level agreements with the Bank dated 30 December 2022 (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. The Bank entered a tenancy agreement with its ultimate holding company dated 9 March 2021. Corresponding amortisation charge 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. As at 30 June 2023, lease liabilities in the amount of HK\$646,000 is included in amounts due to the ultimate holding company (2022: HK\$1,395,000).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

33 Related-party transactions (continued)

33.1 Ultimate holding company (continued)

5. Operating income includes net gain arising from the derivatives with the ultimate holding company in the amount of HK\$22,830,000 during first half of 2023 (first half of 2022: net loss of HK\$402,483,000).
6. As at 30 June 2023, derivatives assets and liabilities in the amount of HK\$340,176,000 and HK\$438,131,000, respectively are included in amounts due from and to the ultimate holding company respectively (2022: HK\$229,117,000 and HK\$272,848,000, respectively).

(i) *Certificates of deposit issued*

As at 30 June 2023, the Bank has no certificate of deposit to the ultimate holding company (first half of 2022: Nil).

(ii) *Committed facilities*

The Bank also received conglomerate guarantee on loan from the ultimate holding company in the amount of HK\$6,091,322,000 (2022: HK\$24,912,564,000).

(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 2023 (first half of 2022: HK\$ Nil).

(iv) *Sub-participation of loans*

The Bank entered into various capital market transactions with the Branch, which include arranging participation/sub-participation in loans, acquiring and disposing of interests in syndicated or individual loans, subscribing to and/or issuing of debt securities and tax efficient financing. These transactions included sub-participation in loans of the Bank by the ultimate holding company and/or the Branch for a total of HK\$1,461,620,000 (first half of 2022: HK\$1,629,993,000). The total fee attributable to the above transactions of approximately HK\$798,000 (first half of 2022: HK\$908,000) was paid by the Bank to the Branch. These transactions were priced based either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates were available, or on terms that were no less favorable than those available to other independent loan members.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

33 Related-party transactions (continued)

33.2 Fellow subsidiaries

	For the six months ended	
	30 June 2023 HK\$'000	30 June 2022 HK\$'000
Interest income	116,213	22,189
Interest expense	34,941	2,328
Net operating loss ¹	(56,775)	(222,883)
Operating expenses	51	79
	As at	
	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Amounts due from	4,215,687	1,896,593
Amounts due to	2,569,537	2,746,209

1. Net operating loss includes net loss arising from the derivatives with fellow subsidiaries in the amount of HK\$61,509,000 during first half of 2023 (first half of 2022: net loss of HK\$225,280,000).

33.3 Associates

	For the six months ended	
	30 June 2023 HK\$'000	30 June 2022 HK\$'000
Interest income	698	–
Interest expense	5,610	–
Operating income	190	4
	As at	
	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Amounts due from	68,013	–
Amounts due to	247,869	246,288

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

33 Related-party transactions (continued)

33.4 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 2023	30 June 2022
	HK\$'000	HK\$'000
Interest income	567,285	129,377
Interest expense	103,911	6,293
Net operating income ¹	28,981	138,466
	As at	
	30 June	31 December
	2023	2022
	HK\$'000	HK\$'000
Amounts due from	38,313,136	42,233,556
Amounts due to	11,811,761	14,501,591

1. Net operating income includes net loss arising from the derivatives with other state-controlled entities and government authorities in the amount of HK\$3,101,000 during first half of 2023 (first half of 2022: net loss of HK\$7,778,000).

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.

33.5 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 2023	30 June 2022
	HK\$'000	HK\$'000
Employee benefits	21,599	22,621

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

33 Related-party transactions (continued)

33.6 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 2023	30 June 2022
	HK\$'000	HK\$'000
Interest income	73	388
Interest expense	1,544	733
Operating income	9	11
Operating expenses	28	24
	As at	
	30 June 2023	31 December 2022
	HK\$'000	HK\$'000
Loans and advances	13,815	6,852
Deposits	171,955	138,995

34 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.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Transferred financial assets (continued)

Repurchase transactions and securities lending transactions (continued)

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

	30 June 2023		31 December 2022	
	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	23,259,600	22,757,334	5,471,755	5,236,218
Securities lending agreements	12,549,342	11,754,830	11,384,221	10,419,636

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 2023, the Group retained obligation on those PRC discounted bills transferred and derecognised but not matured with a carrying amount of HK\$43,137,000 (31 December 2022: HK\$625,355,000). All the transferred discounted bills at year will be matured within a year.

35 Off-balance sheet exposures

35.1 Contingent liabilities and commitments

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

	30 June 2023	30 June 2023	31 December 2022	31 December 2022
	Contractual amount HK\$'000	Credit risk weighted amount HK\$'000	Contractual amount HK\$'000	Credit risk weighted amount HK\$'000
Direct credit substitutes	9,529,308	7,481,229	18,309,410	16,132,816
Transaction-related contingencies	508,754	189,106	340,886	147,828
Trade-related contingencies	21,545,024	4,192,405	12,063,820	2,286,693
Forward asset purchases	169,933	205,668	165,904	199,583
Forward deposit placed	1,000,000	200,000	-	-
Other commitments with an original maturity of:				
– Unconditionally cancellable	136,097,758	-	145,948,402	-
– With original maturity of less than one year	199,844	14,895	781,301	318,916
– With original maturity of over one year	57,027,396	25,249,219	56,669,862	25,762,124
	<u>226,078,017</u>	<u>37,532,522</u>	<u>234,279,585</u>	<u>44,847,960</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Off-balance sheet exposures (continued)

35.2 Capital commitments

Capital commitments for property, plant and equipment outstanding as at 30 June 2023 and 31 December 2022 not provided for in the financial statements are as follows:

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Expenditure contracted, but not provided for	18,379	192,150
Expenditure authorised, but not contracted for	–	10,065
	<u>18,379</u>	<u>202,215</u>

36 Partial disposal of an associate

The Group entered into an option deed effected on 22 August 2022 with a shareholder of an associate (the “Investor”), Infinium Holdings Limited (“Infinium”), and transferred 7.5% shares of Infinium for a consideration of HK\$150 million. As an integrated part of the option deed, the Group has a right to purchase back the shares (the “call option”) while the Investor has a right to sell back (the “put option”) within a year subject to relevant regulatory approval (the “Transaction”). The Group intended to purchase back the shares at the end of the Transaction with it entered into the option deed.

In 2023, such intention had been changed. The Group considered that the shares were deemed to be disposed and recognised a gain on partial disposal of an associate during the period ended 30 June 2023. Neither the call option nor the put option was executed up to the expiry of the Transaction subsequent to the reporting date.

After the deemed partial disposal, the shareholding of Infinium by the Group was reduced from 15.0% to 7.5%. The Group’s investment in Infinium is less than 20% but it is considered to be an associate because of the significant influence the Group is able to exercise over the management of Infinium and its financial and operating policies. This influence is evidenced largely through the representation on the Board of Directors in Infinium and the provision of technical expertise. The Group applies the equity method of accounting for its investment in Infinium.