



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 2024

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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 2024. The condensed consolidated statement of financial position of the Group as at 30 June 2024 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 2024 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 79 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 2024 was HK\$4,257 million. This represents a 9.58% increase over the same period last year (first half of 2023: HK\$3,885 million). Return on average assets and return on average equity were 0.92% and 6.89% respectively (first half of 2023: 0.85% and 6.66% respectively).

Financial Review

In the first half of 2024, the Group’s consolidated profit attributable to shareholders was HK\$4,257 million, representing an increase of HK\$372 million or 9.58% over HK\$3,885 million achieved for the corresponding period in 2023.

Net interest income increased by HK\$118 million or 2.33% to HK\$5,182 million. Net fee and commission income decreased by HK\$55 million or 5.29% to HK\$985 million.

Non-interest income increased by HK\$1,040 million or 67.01% to HK\$2,592 million from HK\$1,552 million for the corresponding period in 2023. The ratio of non-interest income to total operating income was 33.34%, up by 9.88% compared with the corresponding period in 2023.

Operating expenses increased by HK\$204 million or 10.27% to HK\$2,191 million, compared with HK\$1,987 million for the corresponding period in 2023. The cost to income ratio was 28.18%, down by 1.86% compared with the corresponding period in 2023.

The net provision for expected credit loss on loans and advances for the period was HK\$160 million, out of which HK\$482 million was released as write back for non-credit impaired exposures and HK\$642 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\$943,282 million as at 30 June 2024, representing an increase of HK\$27,322 million or 2.98% over the financial position as at 31 December 2023.

Customer deposits amounted to HK\$625,843 million as at 30 June 2024 representing an increase of HK\$23,700 million or 3.94%, compared to HK\$602,143 million as at 31 December 2023. Loans and advances also decreased by HK\$808 million or 0.18% to HK\$450,198 million as at 30 June 2024 compared to HK\$451,006 million as at 31 December 2023.

Total securities investment amounted to HK\$273,900 million as at 30 June 2024, which represents an increase of HK\$22,586 million or 8.99% compared to HK\$251,314 million as at 31 December 2023.

Total certificates of deposit issued increased by HK\$153 million or 8.05% to HK\$2,053 million as at 30 June 2024, compared to HK\$1,900 million as at 31 December 2023.

Capital and Liquidity Management

The Group's capital adequacy ratio increased to 24.32% as at 30 June 2024 from 24.14% as at 31 December 2023. In the first half of 2024, the average liquidity coverage ratio amounted to 160.56% (first half of 2023: 186.22%).

Asset Quality

Under the Bank's prudent risk management policy, the asset quality remained continuously at a satisfactory level. Impaired loans and advances increased by HK\$434 million to HK\$7,560 million as at 30 June 2024, compared with HK\$7,126 million as at 31 December 2023. The impaired loan ratio was 1.65% as at 30 June 2024 (31 December 2023: 1.55%).

As at 30 June 2024, the cumulative loan impairment allowances amounted to HK\$9,685 million (31 December 2023: HK\$9,707 million), which included impairment allowance of HK\$4,739 million (31 December 2023: HK\$5,256 million) for non-credit impaired exposures and impairment allowance of HK\$4,946 million (31 December 2023: HK\$4,451 million) for credit-impaired exposures.

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2024
(UNAUDITED)**

	Notes	Unaudited six months ended 30 June 2024 HK\$'000	Unaudited six months ended 30 June 2023 HK\$'000
Interest income	(6)	19,114,943	16,509,985
Interest expense	(6)	(13,933,023)	(11,446,175)
Net interest income	(6)	5,181,920	5,063,810
Fee and commission income	(7)	1,161,235	1,159,377
Fee and commission expense	(7)	(176,654)	(118,973)
Net fee and commission income	(7)	984,581	1,040,404
Net trading income	(8)	1,288,608	363,886
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	(9)	94,586	(74,555)
Dividend income from financial investments	(10)	18,926	20,123
Other operating income	(11)	205,423	202,314
Operating income		7,774,044	6,615,982
Operating expenses	(12)	(2,190,774)	(1,987,138)
Operating profit before impairment losses		5,583,270	4,628,844
Net charge for impairment losses	(13)	(161,155)	(356,228)
Operating profit after impairment losses		5,422,115	4,272,616
Net loss on disposal of property, plant and equipment	(14)	(33)	(604)
Net (loss)/gain on disposal of financial assets at fair value through other comprehensive income		(478,557)	220,377
Net gain/(loss) on disposal of financial assets at amortised cost		71	(16,649)
Revaluation loss on investment properties		(4,700)	–
Gain on disposal of an associate	(36)	25,533	109,871
Operating profit		4,964,429	4,585,611
Share of gains/(losses) of associates		893	(18,389)
Profit before tax		4,965,322	4,567,222
Income tax expense	(15)	(708,536)	(682,232)
Profit for the period attributable to shareholders of the Bank		4,256,786	3,884,990

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2024
(UNAUDITED)**

	Unaudited six months ended 30 June 2024 HK\$'000	Unaudited six months ended 30 June 2023 HK\$'000
Profit for the period	<u>4,256,786</u>	<u>3,884,990</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>(80,898)</u>	<u>(136,191)</u>
	<u>(80,898)</u>	<u>(136,191)</u>
Revaluation (deficit)/surplus on bank premises	(535)	3,697
Income tax effect	<u>88</u>	<u>(610)</u>
	<u>(447)</u>	<u>3,087</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	47,178	1,637
Income tax effect	<u>(24,592)</u>	<u>(1,650)</u>
	<u>22,586</u>	<u>(13)</u>
Change in fair value of financial assets measured at fair value through other comprehensive income	558,937	1,339,748
Reclassification to condensed consolidated income statement upon disposal of financial assets measured at fair value through other comprehensive income	478,557	(220,377)
Fair value of the hedged items attributable to hedged risk transferred to the condensed consolidated income statement	229,150	(231,054)
Net (reversal)/charge for impairment losses on financial assets	(11,957)	18,115
Income tax effect	<u>(280,183)</u>	<u>(157,080)</u>
	<u>974,504</u>	<u>749,352</u>
Exchange differences arising from translation of results of foreign subsidiaries	<u>(219,641)</u>	<u>(558,097)</u>
Other comprehensive income for the period, net of tax	<u>696,104</u>	<u>58,138</u>
Total comprehensive income for the period, net of tax	<u>4,952,890</u>	<u>3,943,128</u>
Attributable to:		
Shareholders of the Bank	<u>4,952,890</u>	<u>3,943,128</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2024
(UNAUDITED)

		Unaudited	Audited
		30 June	31 December
		2024	2023
	Notes	HK\$'000	HK\$'000
Assets			
Cash and balances with banks and other financial institutions	(17)	33,690,585	36,466,259
Placements with banks and other financial institutions	(18)	151,883,685	148,643,610
Derivative financial instruments	(19)	12,543,821	9,221,842
Advances and other accounts	(20)	450,198,473	451,005,572
Financial investments	(21)	280,727,034	257,849,973
Investments in associates		202,250	215,410
Current income tax assets		14,797	9,488
Goodwill and other intangible assets		1,018,820	1,022,081
Investment properties	(22)	203,600	208,300
Property, plant and equipment	(23)	1,407,347	1,386,756
Deferred income tax assets	(27)	1,411,533	1,807,568
Other assets	(24)	9,980,509	8,123,162
Total assets		<u>943,282,454</u>	<u>915,960,021</u>
Liabilities			
Deposits from banks and other financial institutions	(25)	121,271,644	123,030,430
Trading liabilities		259,899	79,832
Derivative financial instruments	(19)	8,883,433	8,546,307
Deposits from customers	(26)	625,843,198	602,142,864
Certificates of deposit issued		2,052,587	1,899,857
Debt securities in issue	(28)	17,429,778	17,586,947
Current income tax liabilities		779,141	496,654
Deferred income tax liabilities	(27)	498	514
Other liabilities	(29)	12,753,428	12,416,507
Total liabilities		<u>789,273,606</u>	<u>766,199,912</u>
Equity			
Share capital	(30)	44,187,631	44,187,631
Retained earnings		79,912,768	76,360,133
Other reserves		2,239,684	1,543,580
Total equity attributable to shareholders of the Bank		126,340,083	122,091,344
Additional equity instruments	(31)	27,668,765	27,668,765
Total equity		<u>154,008,848</u>	<u>149,760,109</u>
Total equity and liabilities		<u>943,282,454</u>	<u>915,960,021</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2024
(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 2024	44,187,631	747,035	(1,592,365)	(637,918)	69,395	(1,101,334)	4,058,767	76,360,133	27,668,765	149,760,109
Profit for the period	-	-	-	-	-	-	-	4,256,786	-	4,256,786
Other comprehensive income/ (expense) for the period:										
Change in fair value of financial assets measured at fair value through other comprehensive income	-	-	558,937	(80,898)	-	-	-	-	-	478,039
Reclassification to condensed consolidated income statement upon disposal of financial assets measured at fair value through other comprehensive income	-	-	478,557	-	-	-	-	-	-	478,557
Fair value of the hedged items attributable to hedged risk transferred to the condensed consolidated income statement	-	-	229,150	-	-	-	-	-	-	229,150
Net movements under cash flow hedges due to fair value of hedging instruments recognised and reclassified	-	-	-	-	47,178	-	-	-	-	47,178
Net reversal for impairment losses on financial assets	-	-	(11,957)	-	-	-	-	-	-	(11,957)
Revaluation surplus on bank premises	-	(535)	-	-	-	-	-	-	-	(535)
Income tax effect	-	88	(280,183)	-	(24,592)	-	-	-	-	(304,687)
Exchange differences arising from translation of results of foreign subsidiaries	-	-	-	-	-	(219,641)	-	-	-	(219,641)
Total comprehensive income/ (expense) for the period	-	(447)	974,504	(80,898)	22,586	(219,641)	-	4,256,786	-	4,952,890
Distributions paid on additional equity instruments	-	-	-	-	-	-	-	(704,151)	-	(704,151)
At 30 June 2024	<u>44,187,631</u>	<u>746,588</u>	<u>(617,861)</u>	<u>(718,816)</u>	<u>91,981</u>	<u>(1,320,975)</u>	<u>4,058,767</u>	<u>79,912,768</u>	<u>27,668,765</u>	<u>154,008,848</u>

**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 charge 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	44,187,631	749,284	(2,754,900)	(159,720)	(23,483)	(1,305,995)	4,009,513	74,517,719	27,668,765	146,888,814

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2024
(UNAUDITED)**

	Unaudited six months ended 30 June 2024 HK\$'000	Unaudited six months ended 30 June 2023 HK\$'000
Profit before tax	4,965,322	4,567,222
Adjustments for:		
Depreciation and amortisation	264,129	281,016
Gain on disposal of an associate	(25,533)	(109,871)
Net charge for impairment loss	161,155	356,228
Change in operating assets	(23,892,931)	(25,253,285)
Change in operating liabilities	21,013,828	7,247,563
Effects of foreign exchange differences	(137,554)	(191,096)
Tax paid	(357,466)	(452,488)
Other adjustments including non-cash items	399,774	277,118
	<hr/>	<hr/>
Net cash flows from/(used in) operating activities	2,390,724	(13,277,593)
Cash flows from investing activities:		
Purchase of intangible assets	(1,115)	(3,790)
Purchase of property, plant and equipment	(28,376)	(22,983)
Proceeds from disposal of property, plant and equipment	161	13,521
Dividend income from listed financial assets at fair value through profit or loss	17,800	19,153
Dividend income from unlisted equity securities at fair value through other comprehensive income	1,126	970
	<hr/>	<hr/>
Net cash flows (used in)/from investing activities	(10,404)	6,871
Cash flows from financing activities:		
Distribution paid on additional equity instruments	(704,151)	(616,616)
Redemption of debt securities measured at amortised cost	(7,407)	(1,559,077)
Interest paid on debt securities in issue	(354,794)	(419,291)
Payment of lease liabilities	(216,937)	(242,323)
	<hr/>	<hr/>
Net cash flows used in financing activities	(1,283,289)	(2,837,307)
Net increase/(decrease) in cash and cash equivalents	1,097,031	(16,108,029)
Cash and cash equivalents at 1 January	76,986,888	110,686,380
Effects of foreign exchange differences	(214,074)	(649,065)
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	77,869,845	93,929,286

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 2024 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2023.

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 2023.

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 2023.

The financial information relating to the financial year ended 31 December 2023 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 2023 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-CEEFF Holding Company Limited
- Greater China Fund
- 工銀亞投股權投資管理(深圳)有限公司
- 亞投銀欣(廈門)投資管理有限公司
- 蘇州銀晟投資管理有限公司
- 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 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 2024 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)</i>
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants</i>
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements</i>

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**3 Impact of new and amendments to HKFRSs and HKASs (continued)****3.1 Impacts on application of Amendments to HKFRS 16 *Lease Liability in a Sale and Leaseback***

For a transfer that satisfies the requirements as a sale, the Group as a seller-lessee measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset and recognises any gain or loss that relates to the rights transferred to the buyer-lessor only. Right-of-use asset and lease liability are subsequently measured in accordance with the general requirements under HKFRS 16 *Leases*. In measuring the lease liability, the Group determines “lease payments” or “revised lease payments” (including both lease payments that are fixed or variable) in a way that the Group would not recognise any amount of the gain or loss that relates to the right-of-use assets retained by the Group. For variable lease payments that do not depend on an index or rate, the Group determines “lease payments” to reflect the expected lease payments at the commencement date/equal periodic payments over the lease term, and subsequently recognises in profit or loss the difference between the payments made for the lease and “lease payments” that reduce the carrying amount of the lease liability.

If the fair value of the consideration for the sale does not equal the fair value of the asset, or if the payments for the lease are not at market rates, the Group makes the following adjustments to measure the sale proceeds at fair value:

- (a) any below-market terms is accounted for as a prepayment of lease payments; and
- (b) any above-market terms is accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

The application of the amendments has no material impact on the Group's financial position and performance.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

3 Impact of new and amendments to HKFRSs and HKASs (continued)

3.2 Impacts on application of Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)* (the “2020 Amendments”) and Amendments to HKAS 1 *Non-current Liabilities with Covenants* (the “2022 Amendments”)

When determining the classification of convertible loan notes (including the host liability and the related derivative components/convertible instruments designated at fair value through profit or loss (“FVTPL”)) as current or non-current, the Group considers both the redemption through cash settlement and the transfer of the Group’s own equity instruments as a result of exercise of conversion options by holders as settlement of the convertible loan notes.

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements.

3.3 Impacts of Amendments to HKAS 7 and HKFRS 7 *Supplier Finance Arrangements*

The Group will apply amendments to HKAS 7 and HKFRS 7 *Supplier Finance Arrangements* which are mandatorily effective for the Group’s annual period beginning on 1 January 2024 for the preparation of the Group’s consolidated financial statements for the year ending 31 December 2024.

The amendments add a disclosure objective to HKAS 7 *Statement of Cash Flows* stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity’s liabilities and cash flows. In addition, HKFRS 7 *Financial Instruments: Disclosures* was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity’s exposure to concentration of liquidity risk.

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management

4.1 Analysis of assets and liabilities by remaining maturity

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

At 30 June 2024	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	33,690,585	-	-	-	-	-	-	33,690,585
Placements with banks and other financial institutions	-	49,651,102	32,598,229	40,649,270	28,985,084	-	-	151,883,685
Derivative financial instruments	121,942	1,931,891	1,613,933	4,318,138	2,240,884	2,317,033	-	12,543,821
Advances and other accounts	4,931,985	20,188,675	40,370,728	109,011,043	150,530,912	125,165,130	-	450,198,473
Financial investments	-	22,939,727	42,372,487	79,608,338	77,253,700	53,184,325	5,368,457	280,727,034
Investments in associates	-	-	-	-	-	-	202,250	202,250
Goodwill and other intangible assets	-	-	-	-	-	-	1,018,820	1,018,820
Investment properties	-	-	-	-	-	-	203,600	203,600
Property, plant and equipment	-	-	-	-	-	-	1,407,347	1,407,347
Other assets, including current and deferred								
income tax assets	73,445	2,350,086	694,810	2,542,288	2,089,100	1,572	3,655,538	11,406,839
Total assets	38,817,957	97,061,481	117,650,187	236,129,077	261,099,680	180,668,060	11,856,012	943,282,454
Liabilities								
Deposits from banks and other financial institutions	30,696,347	45,029,475	12,534,472	33,011,350	-	-	-	121,271,644
Trading liabilities	3,934	255,965	-	-	-	-	-	259,899
Derivative financial instruments	-	1,144,581	1,076,979	2,798,745	1,859,616	2,003,512	-	8,883,433
Deposits from customers	209,460,300	157,268,008	145,198,026	98,022,130	15,894,734	-	-	625,843,198
Certificates of deposit issued	-	-	2,052,587	-	-	-	-	2,052,587
Debt securities in issue	-	62,713	-	5,461,401	11,905,664	-	-	17,429,778
Other liabilities, including current and deferred								
income tax liabilities	4,340,148	4,449,179	689,928	3,326,626	659,827	67,359	-	13,533,067
Total liabilities	244,500,729	208,209,921	161,551,992	142,620,252	30,319,841	2,070,871	-	789,273,606
Net liquidity gap	(205,682,772)	(111,148,440)	(43,901,805)	93,508,825	230,779,839	178,597,189	11,856,012	154,008,848

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4.1 Analysis of assets and liabilities by remaining maturity (continued)

31 December 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	36,466,259	-	-	-	-	-	-	36,466,259
Placements with banks and other financial institutions	-	49,414,027	8,913,257	80,783,716	9,532,610	-	-	148,643,610
Derivative financial instruments	91,790	857,062	2,430,201	1,339,688	2,253,663	2,249,438	-	9,221,842
Advances and other accounts	2,020,984	32,785,331	29,707,270	109,499,231	172,438,761	104,553,995	-	451,005,572
Financial investments	-	19,422,036	49,271,621	44,531,497	83,863,452	55,660,380	5,100,987	257,849,973
Investments in associates	-	-	-	-	-	-	215,410	215,410
Goodwill and other intangible assets	-	-	-	-	-	-	1,022,081	1,022,081
Investment properties	-	-	-	-	-	-	208,300	208,300
Property, plant and equipment	-	-	-	-	-	-	1,386,756	1,386,756
Other assets, including current and deferred income tax assets	57,137	2,013,650	1,082,472	2,577,671	2,353,620	-	1,855,668	9,940,218
Total assets	38,636,170	104,492,106	91,404,821	238,731,803	270,442,106	162,463,813	9,789,202	915,960,021
Liabilities								
Deposits from banks and other financial institutions	24,655,933	30,802,780	17,320,873	50,250,844	-	-	-	123,030,430
Trading liabilities	4,783	75,049	-	-	-	-	-	79,832
Derivative financial instruments	-	1,203,990	2,213,713	1,072,671	2,080,677	1,975,256	-	8,546,307
Deposits from customers	181,857,608	155,920,950	160,538,235	89,513,717	14,309,414	2,940	-	602,142,864
Certificates of deposit issued	-	-	1,899,857	-	-	-	-	1,899,857
Debt securities in issue	-	-	88,191	2,244,103	15,254,653	-	-	17,586,947
Other liabilities, including current and deferred income tax liabilities	5,737,103	2,992,384	1,230,508	2,282,271	600,258	71,151	-	12,913,675
Total liabilities	212,255,427	190,995,153	183,291,377	145,363,606	32,245,002	2,049,347	-	766,199,912
Net liquidity gap	(173,619,257)	(86,503,047)	(91,886,556)	93,368,197	238,197,104	160,414,466	9,789,202	149,760,109

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 2024	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements				
Financial assets				
Derivative financial instruments				
Currency forwards and swaps	–	5,729,413	–	5,729,413
Structured foreign exchange contracts	–	1,951	–	1,951
Cross-currency interest rate swaps	–	798,062	–	798,062
Currency options	–	103,197	–	103,197
Interest rate swaps	–	4,569,396	–	4,569,396
Commodity swaps	–	1,341,709	–	1,341,709
Interest rate futures	–	93	–	93
	–	12,543,821	–	12,543,821
Loans and advances to customers, banks and trade bills measured at fair value through other comprehensive income				
Advances to customers	–	473,666	–	473,666
Financial investments held for trading				
Debt securities	–	9,971,302	–	9,971,302
Non-trading financial investments mandatorily measured at fair value through profit or loss				
Debt securities	–	164,344	–	164,344
Equity securities	–	–	95,445	95,445
Investment funds	–	5,001,030	–	5,001,030
Others	–	99,009	–	99,009
	–	5,264,383	95,445	5,359,828

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair value of financial assets and liabilities (continued)

30 June 2024	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				
Debt securities	– 196,050,385		–	196,050,385
Equity securities	– 14,629		2,546,462	2,561,091
	– 196,065,014		2,546,462	198,611,476
Total financial assets	– 224,318,186		2,641,907	226,960,093
Financial liabilities				
Structured deposits from customers	– 18,866,589		–	18,866,589
Deposits from banks and other financial institutions	– 13,303,698		–	13,303,698
	– 32,170,287		–	32,170,287
Derivative financial instruments				
Currency forwards and swaps	– 3,919,472		–	3,919,472
Structured foreign exchange contracts	– 3,324		–	3,324
Cross-currency interest rate swaps	– 906,056		–	906,056
Currency options	– 115,532		–	115,532
Interest rate swaps	– 3,835,092		–	3,835,092
Commodity swaps	– 103,957		–	103,957
	– 8,883,433		–	8,883,433
Trading liabilities	– 259,899		–	259,899
Total financial liabilities	– 41,313,619		–	41,313,619

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

31 December 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				
Currency forwards and swaps	–	3,459,599	–	3,459,599
Structured foreign exchange contracts	–	4,154	–	4,154
Cross-currency interest rate swaps	–	848,030	–	848,030
Currency options	–	93,320	–	93,320
Interest rate swaps	–	4,083,728	–	4,083,728
Commodity swaps	–	732,707	–	732,707
Interest rate futures	–	304	–	304
	–	9,221,842	–	9,221,842
Loans and advances to customers, banks and trade bills measured at fair value through other comprehensive income				
Advances to customers	–	436,062	–	436,062
Financial investments held for trading				
Debt securities	–	5,163,388	–	5,163,388
Non-trading financial investments mandatorily measured at fair value through profit or loss				
Debt securities	–	164,408	–	164,408
Equity securities	–	–	129,214	129,214
Investment funds	–	4,744,802	–	4,744,802
Others	–	62,172	–	62,172
	–	4,971,382	129,214	5,100,596

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair value of financial assets and liabilities (continued)

31 December 2023	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	–	148,601,129	–	148,601,129
Equity securities	–	13,642	2,679,215	2,692,857
	–	148,614,771	2,679,215	151,293,986
Total financial assets	–	168,407,445	2,808,429	171,215,874
Financial liabilities				
Structured deposits from customers	–	18,188,373	–	18,188,373
Deposits from banks and other financial institutions	–	14,083,698	–	14,083,698
	–	32,272,071	–	32,272,071
Derivative financial instruments				
Currency forwards and swaps	–	4,078,364	–	4,078,364
Structured foreign exchange contracts	–	6,242	–	6,242
Cross-currency interest rate swaps	–	769,424	–	769,424
Currency options	–	102,799	–	102,799
Interest rate swaps	–	3,556,216	–	3,556,216
Commodity swaps	–	33,262	–	33,262
	–	8,546,307	–	8,546,307
Trading liabilities	–	79,832	–	79,832
Total financial liabilities	–	40,898,210	–	40,898,210

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 2024	At 31 December 2023
Financial investments measured at FVTOCI – Equity securities	Discounted cash flow model	Discount rate	7.2%–9.2%	8.6%–8.9%
	Market-comparable approach	Enterprise value/Sale	0.9–14.0	1.0–12.6
		Marketability discount	27%	29%
	Net asset value	N/A	N/A	N/A
Financial investments at fair value through profit or loss – Equity securities	Market-comparable approach	Price-to-Sales multiples	3.2–18.7	3.9–33.2
		Marketability discount	30%	30%

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

	At 30 June 2024	
	Effect recorded directly in equity Favourable HK\$'000	(Unfavourable) HK\$'000
Financial investments measured at FVTOCI	415,254	(407,927)
	415,254	(407,927)
	At 30 June 2024	
	Effect recorded directly in profit & loss Favourable HK\$'000	(Unfavourable) HK\$'000
Financial investments at fair value through profit or loss	7,870	(10,915)
	7,870	(10,915)
	At 31 December 2023	
	Effect recorded directly in equity Favourable HK\$'000	(Unfavourable) HK\$'000
Financial investments measured at FVTOCI	425,544	(424,799)
	425,544	(424,799)

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 2023 Effect recorded directly in profit & loss	
	Favourable HK\$'000	(Unfavourable) HK\$'000
Financial investments at fair value through profit or loss	12,895	(12,943)
	12,895	(12,943)

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 2024 HK\$'000	Addition HK\$'000	Total unrealised losses recorded in equity/income statements HK\$'000	Exchange difference HK\$'000	At 30 June 2024 HK\$'000
Financial assets					
Financial investments measured at FVTOCI					
– Equity securities	2,679,215	37,357	(82,237)	(87,873)	2,546,462
Financial investments mandatorily measured at fair value through profit or loss					
– Equity securities	129,214	–	(33,769)	–	95,445
Total level 3 financial assets	2,808,429	37,357	(116,006)	(87,873)	2,641,907

	At 1 January 2023 HK\$'000	Addition HK\$'000	Total unrealised losses recorded in equity/income statements HK\$'000	Exchange difference HK\$'000	At 31 December 2023 HK\$'000
Financial assets					
Financial investments measured at FVTOCI					
– Equity securities	3,143,550	39,313	(608,722)	105,074	2,679,215
Financial investments mandatorily measured at fair value through profit or loss					
– Equity securities	98,451	–	30,763	–	129,214
Total level 3 financial assets	3,242,001	39,313	(577,959)	105,074	2,808,429

During the six months ended 30 June 2024, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (First half of 2023: 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 2024		At 31 December 2023	
		Carrying value	Fair value	Carrying value	Fair value
		HK'000	HK'000	HK'000	HK'000
Financial investments measured at amortised cost	(21)	<u>66,784,428</u>	<u>63,692,358</u>	<u>96,292,003</u>	<u>93,152,812</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 2024

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Bank premises and properties	–	–	455,695	455,695
Investment properties	–	–	203,600	203,600

Fair value at 31 December 2023

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Bank premises and properties	–	–	467,327	467,327
Investment properties	–	–	208,300	208,300

During the half years ended 30 June 2024 and 30 June 2023, 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 2024. 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 2024 Range	At 31 December 2023 Range	Fair value measurement sensitivity to unobservables input
<i>Investment properties</i>					
- Hong Kong	<i>Investment method</i>	<i>Market yield</i>	2.6% – 2.8%	2.6% – 2.8%	An increase in the market yield, in isolation, would result in a decrease in a fair value measurement.
- Mainland China	<i>Discount cash flow</i>	<i>Risk adjusted discount rate</i>	5.3%	5.3%	An increase in the risk adjusted discount rate, in isolation, would result in a decrease in a fair value measurement.
		<i>Expected market rental growth</i>	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.
		<i>Expected occupancy rate</i>	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	<i>Direct comparison approach</i>	<i>Premium/(Discount) on characteristic of the properties</i>	(16.4)% – (1.5)%	(16.4)% – (1.5)%	The premium/discount on characteristic of the properties will result in a favourable/unfavourable movement in the fair value of the asset.
- Mainland China method 1	<i>Discount cash flow</i>	<i>Risk adjusted discount rate</i>	4.5%	4.5%	An increase in the risk adjusted discount rate, in isolation, would result in a decrease in a fair value measurement.
		<i>Expected market rental growth</i>	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.
		<i>Expected occupancy rate</i>	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	<i>Direct comparison approach</i>	<i>Market value discount rate</i>	6.0%	6.0%	An increase in the market value discount rate, in isolation, will result in a decrease in a 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)

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

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

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

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

Information about Level 3 fair value measurements (continued)

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

Bank premises and properties:	HK\$'000
At 1 January 2024	467,327
Depreciation charge for the period	(7,946)
Deficit on revaluation	(535)
Exchange adjustment	(3,151)
At 30 June 2024	<u>455,695</u>
Investment properties:	HK\$'000
At 1 January 2024	208,300
Net revaluation loss	(4,700)
At 30 June 2024	<u>203,600</u>
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)
At 30 June 2023	<u>475,605</u>
Investment properties:	HK\$'000
At 1 January 2023 and 30 June 2023	<u>209,000</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

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

In note 4.4, new financial assets originated or purchased includes the new financial assets originated and purchased but subsequently transferred from stage 1 to stage 2 or stage 3 during the same period.

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 2024	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 2024	3,802,530	1,453,423	4,450,849	9,706,802
Transfer to 12-month ECL	2,207	(1,998)	(209)	–
Transfer to Lifetime ECL not credit-impaired	(21,345)	21,345	–	–
Transfer to Lifetime ECL credit-impaired	(7,878)	(417,742)	425,620	–
Net remeasurement of loss allowance (including exchange adjustments)	(446,684)	355,702	216,694	125,712
New financial assets originated or purchased	600,685	12,665	7,950	621,300
Financial assets that have been derecognised	(561,503)	(51,943)	(65,333)	(678,779)
Write-off	–	–	(119,971)	(119,971)
Recoveries of amount previously written off	–	–	30,342	30,342
At 30 June 2024	<u>3,368,012</u>	<u>1,371,452</u>	<u>4,945,942</u>	<u>9,685,406</u>
Comprising of:				
Advances to customers	3,358,819	1,362,820	4,945,942	9,667,581
Advances to banks	5,351	–	–	5,351
Trade bills	3,842	8,632	–	12,474
	<u>3,368,012</u>	<u>1,371,452</u>	<u>4,945,942</u>	<u>9,685,406</u>

During the period ended 30 June 2024, due to deteriorating credit risk of the People's Republic of China (“PRC”) property sector, certain exposures were defaulted and classified as credit impaired loans and advances. Those new credit impaired exposures were about HK\$359,283,000 and contributed expected credit loss of HK\$359,283,000.

During the period ended 30 June 2024, gross carrying amounts of HK\$119,971,000 and its expected credit loss of HK \$119,971,000 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 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 2023				
Movement in impairment allowances:				
At 1 January 2023	5,251,384	619,557	2,283,215	8,154,156
Transfer to 12-month ECL	9,308	(9,308)	–	–
Transfer to Lifetime ECL not credit-impaired	(198,753)	198,753	–	–
Transfer to Lifetime ECL credit-impaired	(92,333)	(118,371)	210,704	–
Net remeasurement of loss allowance (including exchange adjustments)	(1,086,668)	840,294	2,373,984	2,127,610
New financial assets originated or purchased	748,879	21,728	48,485	819,092
Financial assets that have been derecognised	(829,287)	(99,230)	(6,151)	(934,668)
Write offs	–	–	(543,167)	(543,167)
Recoveries of amount previously written off	–	–	83,779	83,779
At 31 December 2023	<u>3,802,530</u>	<u>1,453,423</u>	<u>4,450,849</u>	<u>9,706,802</u>
Comprising of:				
Advances to customers	3,783,677	1,453,420	4,450,849	9,687,946
Advances to banks	5,583	–	–	5,583
Trade bills	13,270	3	–	13,273
	<u>3,802,530</u>	<u>1,453,423</u>	<u>4,450,849</u>	<u>9,706,802</u>

Due to deteriorating credit risk of the PRC property sector, certain exposures were defaulted and classified as credit impaired loans and advances in 2023. Those new credit impaired exposures were about HK\$2,692,159,000 and contributed expected credit loss of HK\$1,476,609,000 as at year end.

In 2023, gross carrying amounts of HK\$543,167,000 and its expected credit loss of HK\$543,167,000 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 2024	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 2024	198	1,587	–	1,785
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)	–	(517)	–	(517)
New financial assets originated or purchased	108	–	–	108
Financial assets that have been derecognised	–	–	–	–
At 30 June 2024	<u>306</u>	<u>1,070</u>	<u>–</u>	<u>1,376</u>
31 December 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)	–	(1,071)	–	(1,071)
New financial assets originated or purchased	–	1,152	–	1,152
Financial assets that have been derecognised	(1,982)	–	–	(1,982)
At 31 December 2023	<u>198</u>	<u>1,587</u>	<u>–</u>	<u>1,785</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

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

Financial investments measured at amortised cost

30 June 2024	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 2024	85,505	–	–	85,505
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)	(25,299)	–	–	(25,299)
New financial assets originated or purchased	3,666	–	–	3,666
Financial assets that have been derecognised	(7,358)	–	–	(7,358)
At 30 June 2024	<u>56,514</u>	<u>–</u>	<u>–</u>	<u>56,514</u>
	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
31 December 2023				
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)	(19,830)	–	–	(19,830)
New financial assets originated or purchased	33,967	–	–	33,967
Financial assets that have been derecognised	(9,078)	–	–	(9,078)
At 31 December 2023	<u>85,505</u>	<u>–</u>	<u>–</u>	<u>85,505</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 2024	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 2024	147,155	–	146,021	293,176
Transfer to 12-month ECL	(447)	447	–	–
Transfer to Lifetime ECL not credit-impaired	–	–	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	(27,664)	1,135	1,187	(25,342)
New financial assets originated or purchased	43,407	–	–	43,407
Financial assets that have been derecognised	(29,612)	–	–	(29,612)
At 30 June 2024	<u>132,839</u>	<u>1,582</u>	<u>147,208</u>	<u>281,629</u>
31 December 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)	(20,436)	–	29,767	9,331
New financial assets originated or purchased	62,686	–	–	62,686
Financial assets that have been derecognised	(30,795)	–	–	(30,795)
At 31 December 2023	<u>147,155</u>	<u>–</u>	<u>146,021</u>	<u>293,176</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

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

Cash, placements with banks and other financial institutions

30 June 2024	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 2024	123,316	–	–	123,316
Net remeasurement of loss allowance (including exchange adjustments)	(52,671)	–	–	(52,671)
New financial assets originated or purchased	3,004	–	–	3,004
Financial assets that have been derecognised	(1,270)	–	–	(1,270)
At 30 June 2024	<u>72,379</u>	<u>–</u>	<u>–</u>	<u>72,379</u>
31 December 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	94,709	–	–	94,709
Net remeasurement of loss allowance (including exchange adjustments)	35,867	–	–	35,867
New financial assets originated or purchased	1,139	–	–	1,139
Financial assets that have been derecognised	(8,399)	–	–	(8,399)
At 31 December 2023	<u>123,316</u>	<u>–</u>	<u>–</u>	<u>123,316</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 2024	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 2024	222,273	10,162	–	232,435
Transfer to 12-month ECL	236	(236)	–	–
Transfer to Lifetime ECL not credit-impaired	(12)	12	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	114,200	(914)	–	113,286
New financial assets originated or purchased	21,130	3,867	–	24,997
Financial assets that have been derecognised	(50,436)	(1,965)	–	(52,401)
At 30 June 2024	307,391	10,926	–	318,317
	12-month	Lifetime	Lifetime	
	ECL	ECL not	ECL	
	HK\$'000	credit- impaired HK\$'000	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	941	(941)	–	–
Transfer to Lifetime ECL not credit-impaired	(54)	54	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	(30,224)	(1,329)	–	(31,553)
New financial assets originated or purchased	28,959	4,727	–	33,686
Financial assets that have been derecognised	(93,350)	(3,165)	–	(96,515)
31 December 2023	222,273	10,162	–	232,435

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 2024	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	Others HK\$'000	Total HK\$'000
Net interest income	161,377	1,047,880	565,061	935,739	69,240	575,929	787,898	1,038,796	5,181,920
Fee and commission income	12,649	231,353	66,492	523,402	18	171,167	99,483	56,671	1,161,235
Fee and commission expense	-	(731)	(67)	(170,704)	-	(1,924)	(865)	(2,363)	(176,654)
Net fee and commission income	12,649	230,622	66,425	352,698	18	169,243	98,618	54,308	984,581
Net trading income/(expense)	7,968	72,606	65,883	201,378	188,966	17,894	(194,529)	928,442	1,288,608
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	-	-	-	-	-	94,586	94,586
Dividend income from financial investments	-	-	-	-	-	-	-	18,926	18,926
Other operating income	-	-	62	41	-	3,650	1,192	200,478	205,423
Operating income	181,994	1,351,108	697,431	1,489,856	258,224	766,716	693,179	2,335,536	7,774,044
Operating expenses	(45,308)	(133,840)	(221,087)	(846,661)	(184,756)	(151,102)	(217,951)	(390,069)	(2,190,774)
Operating profit before impairment losses	136,686	1,217,268	476,344	643,195	73,468	615,614	475,228	1,945,467	5,583,270
Write back/(charge for) impairment losses on financial assets	(1,834)	(213,676)	(72,086)	(81,249)	(21,796)	(17,926)	(161,192)	408,604	(161,155)
Operating profit after impairment losses	134,852	1,003,592	404,258	561,946	51,672	597,688	314,036	2,354,071	5,422,115
Revaluation loss on investment properties	-	-	-	-	-	-	-	(4,700)	(4,700)
Net (loss)/gain on disposal of property, plant and equipment	-	-	-	(62)	-	-	-	29	(33)
Net gain on disposal of an associate	-	-	-	-	-	-	-	25,533	25,533
Net gain on disposal of financial assets at amortised cost	-	-	-	-	71	-	-	-	71
Net gain/(loss) on disposal of financial assets at fair value through other comprehensive income	-	-	-	-	179,881	-	53,711	(712,149)	(478,557)
Operating profit	134,852	1,003,592	404,258	561,884	231,624	597,688	367,747	1,662,784	4,964,429
Share of profits of associates	-	-	-	-	-	-	-	893	893
Profit before tax	134,852	1,003,592	404,258	561,884	231,624	597,688	367,747	1,663,677	4,965,322
Segment assets	27,962,264	127,269,296	78,088,528	114,918,598	257,680,996	22,933,639	121,723,684	192,503,199	943,080,204
Investments in associates	-	-	-	-	-	-	-	202,250	202,250
Total assets	27,962,264	127,269,296	78,088,528	114,918,598	257,680,996	22,933,639	121,723,684	192,705,449	943,282,454
Total liabilities	27,650,219	126,437,460	78,161,263	117,261,282	254,096,551	46,546,979	103,952,253	35,167,599	789,273,606
Capital expenditure	-	57	11	129,383	611	-	149,610	18,182	297,854
Depreciation and amortisation charge	2,891	3,869	12,720	111,429	6,133	3,420	27,016	96,651	264,129

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	Others 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 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 loss 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)

5.2 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 2024

	Hong Kong HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
Net interest income	4,394,163	787,757	5,181,920
Fee and commission income	1,061,752	99,483	1,161,235
Fee and commission expense	(175,789)	(865)	(176,654)
Net fee and commission income	885,962	98,619	984,581
Other income/(loss)	1,800,880	(193,337)	1,607,543
Profit before tax	4,596,852	368,470	4,965,322
Total assets	821,559,866	121,722,588	943,282,454
Total liabilities	685,323,072	103,950,534	789,273,606
Contingent liabilities and commitments	182,649,575	49,441,879	232,091,454
Capital expenditure during the period	148,244	149,610	297,854

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/(loss)	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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

6 Net interest income

	30 June 2024 HK\$'000	30 June 2023 HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	505,494	664,589
Placements with banks and other financial institutions	3,879,544	2,813,524
Advances and other accounts	10,248,973	9,575,802
Financial investments measured at fair value through other comprehensive income	3,350,060	1,955,932
Financial investments measured at amortised cost	<u>1,130,872</u>	<u>1,500,138</u>
	<u>19,114,943</u>	<u>16,509,985</u>
Interest expense on:		
Deposits from banks and other financial institutions	1,513,230	1,476,805
Deposits from customers	11,971,544	9,507,529
Certificates of deposit issued	63,731	59,630
Debt securities in issue	370,565	392,708
Others	<u>13,953</u>	<u>9,503</u>
	<u>13,933,023</u>	<u>11,446,175</u>
Net interest income	<u><u>5,181,920</u></u>	<u><u>5,063,810</u></u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

7 Net fee and commission income

	30 June 2024 HK\$'000	30 June 2023 HK\$'000
Loans, overdrafts and guarantees	444,103	519,356
Securities and brokerage	197,446	173,390
Trade finance	25,988	35,949
Credit card	229,443	162,532
Remittance	71,345	61,156
Insurance	100,822	112,860
Other retail and commercial banking services	15,522	15,436
Securities arrangement fee	15,134	16,194
Others	61,432	62,504
	<u>1,161,235</u>	<u>1,159,377</u>
Fee and commission expense	(176,654)	(118,973)
	<u>984,581</u>	<u>1,040,404</u>
Net fee and commission income		
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	470,091	555,306
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	29,597	24,290
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	229,443	162,532
– term loans	133,035	94,691
– syndication loans	204,108	282,358
– securities and brokerage	197,446	173,390
Timing of fee and commission income		
– A point in time	1,108,384	1,104,711
– Over time	52,851	54,666

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

8 Net trading income

	30 June 2024	30 June 2023
	HK\$'000	HK\$'000
Debt securities – Financial investments held for trading	187,262	96,000
Derivatives	(163,852)	(207,865)
Foreign exchange	1,265,065	500,821
	1,288,475	388,956
Loss from hedging activities		
Fair value hedges		
– Net (loss)/gain on hedged items attributable to the hedged risk	(229,150)	231,054
– Net gain/(loss) on hedging instruments	229,283	(256,124)
	133	(25,070)
Total net trading income	1,288,608	363,886

9 Net gain/(loss) on financial assets and liabilities at fair value through profit or loss

	30 June 2024	30 June 2023
	HK\$'000	HK\$'000
Net loss from financial instruments designated at FVTPL	–	(156,579)
Net gain from financial instruments mandatorily measured at FVTPL (other than those included in net trading income)	94,586	82,024
Total net gain/(loss) on financial assets and liabilities at fair value through profit or loss	94,586	(74,555)

10 Dividend income from financial investments

	30 June 2024	30 June 2023
	HK\$'000	HK\$'000
Dividend income from unlisted equity securities at fair value through other comprehensive income	1,126	970
Dividend income from listed financial assets at fair value through profit or loss	17,800	19,153
Total dividend income from financial investments	18,926	20,123

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

11 Other operating income

	30 June 2024 HK\$'000	30 June 2023 HK\$'000
Management fee income	188,850	188,850
Rental income	7,340	7,947
Less: Direct operating expenses arising from investment properties that generated rental income during the year	(336)	(315)
Others	9,569	5,832
	<u>205,423</u>	<u>202,314</u>

12 Operating expenses

	30 June 2024 HK\$'000	30 June 2023 HK\$'000
Staff costs		
– Salaries and other costs	1,385,740	1,175,052
– Retirement benefit costs	57,928	52,190
	<u>1,443,668</u>	<u>1,227,242</u>
Premises and equipment expenses, excluding depreciation and amortisation		
– Rental of premises	9,684	15,535
– Others	94,124	122,178
	<u>103,808</u>	<u>137,713</u>
Depreciation and amortisation expenses		
– Depreciation of right-of-use assets	210,369	221,331
– Depreciation of other fixed assets	49,617	55,953
– Amortisation of intangible assets	4,143	3,732
	<u>264,129</u>	<u>281,016</u>
Auditor's remuneration	3,240	3,240
General administration expenses	33,018	34,503
Business promotion expenses	75,955	62,881
Communication expenses	56,874	69,868
Other operating expenses	210,082	170,675
	<u>2,190,774</u>	<u>1,987,138</u>

Note: Expenses relating to short-term leases is HK\$935,000 (first half of 2023: HK\$7,153,000). Expenses relating to low value assets is HK\$9,000 (first half of 2023: HK\$9,000). Total cash outflow for leases is HK\$217,881,000 (first half of 2023: HK\$250,919,000).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

13 Net charge for impairment losses

	30 June 2024 HK\$'000	30 June 2023 HK\$'000
Net charge for impairment losses on loans and advances	(159,442)	(343,920)
Net charge for impairment losses on other financial assets, loan commitments and financial guarantees	<u>(1,713)</u>	<u>(12,308)</u>
Net charge for impairment losses	<u><u>(161,155)</u></u>	<u><u>(356,228)</u></u>

14 Net loss on disposal of property, plant and equipment

	30 June 2024 HK\$'000	30 June 2023 HK\$'000
Net loss on disposal of property, plant and equipment	(37)	(608)
Write-back of revaluation deficits of bank premises	<u>4</u>	<u>4</u>
	<u><u>(33)</u></u>	<u><u>(604)</u></u>

15 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2023: 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 2024 HK\$'000	30 June 2023 HK\$'000
Current tax – Provision for Hong Kong profits tax for the period	621,309	670,959
– Provision for overseas tax for the period	13,724	35,650
Over-provision in respect of prior periods	(1,092)	(1,240)
Deferred taxation	<u>74,595</u>	<u>(23,137)</u>
	<u><u>708,536</u></u>	<u><u>682,232</u></u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

15 Income tax expense (continued)

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

	30 June 2024 HK\$'000	30 June 2023 HK\$'000
Profit before tax	4,965,322	4,567,222
Calculated at a tax rate of 16.5% (2023: 16.5%)	819,278	753,592
Effect of different tax rates in other countries and regions	47,651	69,681
Effect of income not subject to tax	(281,366)	(230,403)
Effect of expenses not deductible for tax purposes	120,123	68,818
Over-provision in respect of prior periods	(1,092)	(1,240)
Tax effect of tax losses not recognised	4,131	19,758
Tax effect of share of results of associates	(147)	3,034
Other	(42)	(1,008)
	<u>708,536</u>	<u>682,232</u>
Tax charge	<u>708,536</u>	<u>682,232</u>

16 Dividends and 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 2024 (first half of 2023: Nil).

16.2 Distributions to holders of Additional Tier 1 Capital Securities

	30 June 2024 HK\$'000	30 June 2023 HK\$'000
Distributions paid on:		
– US\$1 billion undated non-cumulative subordinated additional tier 1 capital securities	129,000	129,206
– US\$2.536 billion undated non-cumulative subordinated additional tier 1 capital securities	575,151	487,410
	<u>704,151</u>	<u>616,616</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

17 Cash and balances with banks and other financial institutions

	30 June 2024	31 December 2023
	HK\$'000	HK\$'000
Cash on hand	591,205	379,803
Balances with central banks	5,368,300	6,558,704
Balances with other banks and financial institutions	27,731,172	29,528,355
Less: impairment allowance		
– 12-month ECL	(92)	(603)
	<u>33,690,585</u>	<u>36,466,259</u>

18 Placements with banks and other financial institutions

	30 June 2024	31 December 2023
	HK\$'000	HK\$'000
Placements with banks and other financial institutions		
– maturing within one month	49,608,105	49,256,889
– maturing after one month but less than one year	71,683,109	88,747,797
– maturing after one year	28,853,004	9,512,593
Accrued interest	1,811,754	1,249,044
Less: impairment allowance		
– 12-month ECL	(72,287)	(122,713)
	<u>151,883,685</u>	<u>148,643,610</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 2024 and 31 December 2023:

As at 30 June 2024	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	709,518,982	5,056,600	(4,810,066)
– OTC currency options purchased	45,774,293	103,197	(4)
– OTC currency options written	53,570,596	–	(115,528)
– Structured foreign exchange instruments	370,016	1,948	(1,831)
		<u>5,161,745</u>	<u>(4,927,429)</u>
Total foreign exchange derivatives			
b) Interest rate derivatives			
– Interest rate swaps	239,905,601	3,838,563	(3,738,078)
– Interest rate futures	7,809	93	–
		<u>3,838,656</u>	<u>(3,738,078)</u>
Total interest rate derivatives			
		<u>9,000,401</u>	<u>(8,665,507)</u>
Total derivative assets/(liabilities) held for trading			
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	22,904,429	693,583	(97,014)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	1,874,124	37,250	–
– Currency swaps	43,531,939	1,470,878	(16,955)
– Commodity swaps	13,303,698	1,341,709	(103,957)
		<u>2,849,837</u>	<u>(120,912)</u>
Total derivative assets/(liabilities) held for hedging		<u>3,543,420</u>	<u>(217,926)</u>
Total recognised derivative assets/(liabilities)		<u><u>12,543,821</u></u>	<u><u>(8,883,433)</u></u>

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

As at 31 December 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	441,616,294	4,281,440	(4,773,894)
– OTC currency options purchased	39,407,128	93,319	(10)
– OTC currency options written	36,018,929	1	(102,789)
– Structured foreign exchange instruments	6,209,023	4,154	(6,242)
Total foreign exchange derivatives		<u>4,378,914</u>	<u>(4,882,935)</u>
b) Interest rate derivatives			
– Interest rate swaps	170,023,913	3,348,101	(3,246,465)
– Interest rate futures	7,814	304	–
Total interest rate derivatives		<u>3,348,405</u>	<u>(3,246,465)</u>
Total derivative assets/(liabilities) held for trading		<u>7,727,319</u>	<u>(8,129,400)</u>
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	33,347,314	670,685	(302,936)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	3,672,627	64,942	(6,815)
– Currency swaps	50,363,799	26,189	(73,894)
– Commodity swaps	14,083,698	732,707	(33,262)
		<u>823,838</u>	<u>(113,971)</u>
Total derivative assets/(liabilities) held for hedging		<u>1,494,523</u>	<u>(416,907)</u>
Total recognised derivative assets/(liabilities)		<u>9,221,842</u>	<u>(8,546,307)</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 2024 and 31 December 2023 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 2024						
Interest rate swaps	<u>39,045</u>	<u>1,600,814</u>	<u>1,467,489</u>	<u>13,323,537</u>	<u>6,473,544</u>	<u>22,904,429</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 2023						
Interest rate swaps	<u>125,025</u>	<u>398,519</u>	<u>6,115,598</u>	<u>17,594,282</u>	<u>9,113,890</u>	<u>33,347,314</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 2024			
Derivative financial instruments – interest rate swaps	<u>22,904,429</u>	<u>693,583</u>	<u>(97,014)</u>
	Fair value		
	Contractual/ notional amounts HK\$'000	Assets HK\$'000	Liabilities HK\$'000
31 December 2023			
Derivative financial instruments – interest rate swaps	<u>33,347,314</u>	<u>670,685</u>	<u>(302,936)</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 2024			
Investments in securities			
– Debt securities	<u>21,477,637</u>	<u>(594,178)</u>	<u>(227,731)</u>
		Accumulated	Change in
		amount of fair	value used as
		value hedge	the basis
		adjustment	for recognising
		included in	hedge
	Carrying	the carrying	ineffectiveness
	amounts	amount	HK\$'000
	HK\$'000	HK\$'000	
31 December 2023			
Investments in securities			
– Debt securities	<u>28,749,453</u>	<u>(366,477)</u>	<u>895,412</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 2024 HK\$'000	30 June 2023 HK\$'000
Gain/(loss) arising from fair value hedge, net:		
– Hedging instruments	229,283	(256,124)
– Hedged items attributable to the hedged risk	(229,150)	231,054
	<u>133</u>	<u>(25,070)</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 2023: Nil).

The table below summarises the contractual/notional amounts of the hedging instruments as at 30 June 2024 and 31 December 2023 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 2024						
Interest rate swaps	–	858,973	–	1,015,151	–	1,874,124
Currency swaps	1,391,674	3,938,262	38,202,003	–	–	43,531,939
Commodity swaps	<u>3,508,668</u>	<u>1,169,556</u>	<u>8,625,474</u>	<u>–</u>	<u>–</u>	<u>13,303,698</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 2023						
Interest rate swaps	–	–	2,656,794	1,015,833	–	3,672,627
Currency swaps	5,202,080	–	41,281,569	3,880,150	–	50,363,799
Commodity swaps	<u>2,390,592</u>	<u>2,338,621</u>	<u>9,354,485</u>	<u>–</u>	<u>–</u>	<u>14,083,698</u>

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

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 2024			
Derivative financial instruments			
– Interest rate swaps	1,874,124	37,250	–
– Currency swaps	43,531,939	1,470,878	(16,955)
– Commodity swaps	<u>13,303,698</u>	<u>1,341,709</u>	<u>(103,957)</u>
31 December 2023			
Derivative financial instruments			
– Interest rate swaps	3,672,627	64,942	(6,815)
– Currency swaps	50,363,799	26,189	(73,894)
– Commodity swaps	<u>14,083,698</u>	<u>732,707</u>	<u>(33,262)</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:

	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	Balance in cash flow hedge reserve arising from hedging relationships for which hedge accounting is no longer applied HK\$'000
30 June 2024				
Asset				
– Loans to customers	8,589,735	11,400	(32,940)	–
– Debt securities	33,232,884	160,288	102,155	–
Liabilities				
– Deposits from banks and other financial institutions	13,303,698	(97,890)	(1,178)	–
– Deposits from customers	<u>1,874,124</u>	<u>38,267</u>	<u>(20,860)</u>	<u>–</u>
Balance in cash flow hedge reserve arising from hedging relationships for which hedge accounting is no longer applied HK\$'000				
	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	Balance in cash flow hedge reserve arising from hedging relationships for which hedge accounting is no longer applied HK\$'000
31 December 2023				
Asset				
– Loans to customers	39,851,910	37,525	55,505	–
– Debt securities	6,508,922	58,133	58,133	–
Liabilities				
– Deposits from banks and other financial institutions	18,769,917	(96,712)	56,992	–
– Deposits from customers	<u>2,891,217</u>	<u>65,942</u>	<u>(73,653)</u>	<u>–</u>

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

During the period, amounted to HK\$361,706,000 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 2023: HK\$98,278,000).

There were no transactions for which cash flow hedge accounting had to be ceased in the first half of 2024 as a result of the highly probable cash flows no longer being expected to occur.

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	Balance in the net investment hedge reserve	Change in value used as the basis for recognising hedge ineffectiveness	Balance in net investment hedge reserve arising from hedging relationships for which hedge accounting is no longer applied	Hedge ineffectiveness recognised in profit and loss
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
30 June 2024					
Investments in subsidiaries	<u>6,293,499</u>	<u>514,190</u>	<u>182,051</u>	<u>-</u>	<u>5,053</u>
31 December 2023					
Investments in subsidiaries	<u>6,293,499</u>	<u>332,139</u>	<u>(19,566)</u>	<u>-</u>	<u>(5,004)</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 2024 HK\$'000	31 December 2023 HK\$'000
Loans and advances to customers, banks and other accounts measured at amortised cost		
– Advances to customers	452,902,661	452,451,082
– Advances to banks	1,062,004	593,872
– Trade bills	<u>4,180,799</u>	<u>5,795,803</u>
Gross loans and advances to customers, banks and other accounts measured at amortised cost	458,145,464	458,840,757
Accrued interest	<u>1,264,749</u>	<u>1,435,555</u>
	459,410,213	460,276,312
Less: Impairment allowances		
– 12-month ECL	(3,368,012)	(3,802,530)
– Lifetime ECL not credit-impaired	(1,371,452)	(1,453,423)
– Lifetime ECL credit-impaired	<u>(4,945,942)</u>	<u>(4,450,849)</u>
	449,724,807	450,569,510
Loans and advances to customers, banks and other accounts measured at fair value through other comprehensive income		
– Advances to customers	<u>473,666</u>	<u>436,062</u>
	<u>450,198,473</u>	<u>451,005,572</u>

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 2024 HK\$'000	31 December 2023 HK\$'000
Gross carrying amount of the credit-impaired loans and advances	7,559,689	7,126,149
Impairment allowances made in respect of such loans	4,945,942	4,450,849
Gross carrying amount of the credit-impaired loans and advances as a percentage of total gross loans and advances	1.65%	1.55%
Market value of collateral	<u>4,991,560</u>	<u>4,361,674</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.

There were no advances to banks and trade bills classified as stage 3 as at 30 June 2024 (31 December 2023: Nil).

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 2024						
Overdue for:						
Six months or less						
but over three months	534,042	0.1	1,199,905	420,686	113,357	305,485
One year or less but over six months	3,464,921	0.8	1,835,181	1,831,402	1,633,519	2,116,527
Over one year	2,160,710	0.5	1,956,474	833,868	1,326,842	1,894,611
	<u>6,159,673</u>	<u>1.4</u>	<u>4,991,560</u>	<u>3,085,956</u>	<u>3,073,718</u>	<u>4,316,623</u>

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) (continued)

	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 31 December 2023						
Overdue for:						
Six months or less						
but over three months	3,156,709	0.7	2,016,805	2,026,044	1,130,665	1,765,952
One year or less but over six months	247,027	0.1	184,155	110,350	136,677	179,010
Over one year	2,082,401	0.4	2,160,714	822,036	1,260,365	1,845,277
	<u>5,486,137</u>	<u>1.2</u>	<u>4,361,674</u>	<u>2,958,430</u>	<u>2,527,707</u>	<u>3,790,239</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 2024 and 31 December 2023.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

20 Advances and other accounts (continued)

20.3 Other overdue assets

	30 June 2024		31 December 2023	
	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	30,916	-	14,608	-
One year or less but over six months	39,945	-	8,683	-
Over one year	108,309	-	99,003	-
	<u>179,170</u>	<u>-</u>	<u>122,294</u>	<u>-</u>

Other assets refer to trade bills and receivables.

20.4 Rescheduled advances

	30 June 2024 HK\$'000	% of advances to customers	31 December 2023 HK\$'000	% of advances to customers
Rescheduled advances (excluding overdue loans over three months)	666,929	0.15	631,294	0.14

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 2024 and 31 December 2023.

20.5 Repossessed assets

As at 30 June 2024, for certain credit-impaired loans, the Group obtained two (31 December 2023: three) repossessed assets by taking possession of collateral held as security with total current market value of HK\$11,066,666 (31 December 2023: HK\$20,150,000). Repossessed assets only comprise properties which the Group has acquired access or control (e.g. through legal actions or voluntary actions by the borrowers concerned) for releasing in full or in part on the obligations of the borrowers.

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 2024 (31 December 2023: Nil). No collateral has been sold or repledged by the Group as at 30 June 2024 and 31 December 2023. 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 2024				
	Trading assets	Non-trading financial investments mandatorily measured at FVTPL	Measured at FVTOCI	Measured at amortised cost	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Debt securities					
– Treasury bills	5,370,594	10,196	63,881,368	11,666,568	80,928,726
– Certificates of deposit held	934,909	–	12,261,493	8,196,814	21,393,216
– Others	3,665,799	154,148	118,857,630	46,243,640	168,921,217
Equity securities	–	95,445	2,561,091	–	2,656,536
Investment funds	–	5,001,030	–	–	5,001,030
Others	–	99,009	–	–	99,009
Interest Receivable	–	–	1,049,894	677,406	1,727,300
Total financial investments	<u>9,971,302</u>	<u>5,359,828</u>	<u>198,611,476</u>	<u>66,784,428</u>	<u>280,727,034</u>
Financial investments are analysed by category of issuer as follows:					
– Central governments and central banks	6,616,480	20,846	98,072,863	15,972,640	120,682,829
– Public sector entities	1,201,689	4,046	15,290,962	4,285,440	20,782,137
– Banks and other financial institutions	1,745,512	5,155,949	35,737,229	23,724,018	66,362,708
– Corporate entities	407,621	178,987	48,460,528	22,124,924	71,172,060
Interest Receivable	–	–	1,049,894	677,406	1,727,300
Total financial investments	<u>9,971,302</u>	<u>5,359,828</u>	<u>198,611,476</u>	<u>66,784,428</u>	<u>280,727,034</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Financial investments (continued)

	31 December 2023				Total HK\$'000
	Trading assets HK\$'000	Non-trading financial investments mandatorily measured at FVTPL HK\$'000	Measured at FVTOCI HK\$'000	Measured at amortised cost HK\$'000	
Debt securities					
– Treasury bills	3,687,430	9,152	46,561,968	13,869,012	64,127,562
– Certificates of deposit held	856,888	–	2,634,149	11,693,739	15,184,776
– Others	619,070	155,256	98,493,994	69,910,978	169,179,298
Equity securities	–	129,214	2,692,857	–	2,822,071
Investment funds	–	4,744,802	–	–	4,744,802
Others	–	62,172	–	–	62,172
Interest Receivable	–	–	911,018	818,274	1,729,292
Total financial investments	<u>5,163,388</u>	<u>5,100,596</u>	<u>151,293,986</u>	<u>96,292,003</u>	<u>257,849,973</u>
Financial investments are analysed by category of issuer as follows:					
– Central governments and central banks	3,748,135	9,152	68,085,906	35,783,453	107,626,646
– Public sector entities	50,960	2,999	2,355,627	8,149,656	10,559,242
– Banks and other financial institutions	929,752	4,885,222	27,314,373	26,327,038	59,456,385
– Corporate entities	434,541	203,223	52,627,062	25,213,582	78,478,408
Interest Receivable	–	–	911,018	818,274	1,729,292
Total financial investments	<u>5,163,388</u>	<u>5,100,596</u>	<u>151,293,986</u>	<u>96,292,003</u>	<u>257,849,973</u>

22 Investment properties

	30 June 2024 HK\$'000	31 December 2023 HK\$'000
Carrying amount at 1 January	208,300	209,000
Net revaluation loss	(4,700)	(700)
Carrying amount at 30 June/31 December	<u>203,600</u>	<u>208,300</u>

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 2023 and 1 January 2024:						
Cost or valuation	724,863	438,152	633,746	2,867,436	80,773	4,744,970
Accumulated depreciation and impairment	(257,536)	(378,291)	(480,324)	(2,169,635)	(72,428)	(3,358,214)
At 1 January 2024	467,327	59,861	153,422	697,801	8,345	1,386,756
Additions	-	291	28,085	268,143	221	296,740
Disposals	-	-	(194)	-	-	(194)
Revaluation	(535)	-	-	-	-	(535)
Depreciation provided during the period	(7,946)	(13,243)	(28,428)	(206,758)	(3,611)	(259,986)
Exchange rate and others	(3,151)	(38)	(11,441)	(804)	-	(15,434)
Net book value at 30 June 2024	455,695	46,871	141,444	758,382	4,955	1,407,347
At 30 June 2024						
Cost or valuation	715,474	432,962	613,006	3,049,157	80,994	4,891,593
Accumulated depreciation and impairment	(259,779)	(386,091)	(471,562)	(2,290,775)	(76,039)	(3,484,246)
Net book value at 30 June 2024	455,695	46,871	141,444	758,382	4,955	1,407,347

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 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	-	17,699	44,507	239,016	298	301,520
Disposals	-	(473)	(6,125)	(52,253)	(9,991)	(68,842)
Revaluation	2,506	-	-	-	-	2,506
Depreciation provided during the period	(16,061)	(31,381)	(61,571)	(470,326)	(11,202)	(590,541)
Exchange rate and others	(5,053)	(2,049)	(6,076)	(2,273)	-	(15,451)
Net book value at 31 December 2023	467,327	59,861	153,422	697,801	8,345	1,386,756
At 31 December 2023						
Cost or valuation	724,863	438,152	633,746	2,867,436	80,773	4,744,970
Accumulated depreciation and impairment	(257,536)	(378,291)	(480,324)	(2,169,635)	(72,428)	(3,358,214)
Net book value at 31 December 2023	467,327	59,861	153,422	697,801	8,345	1,386,756

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

23 Property, plant and equipment (continued)

(b) Right-of-use assets

	30 June 2024 HK\$'000	31 December 2023 HK\$'000
Right-of-use assets – Premises, with remaining lease term of:		
– Not later than 1 year	51,127	38,258
– Later than 1 year and not later than 2 years	282,947	136,876
– Later than 2 years and not later than 5 years	360,559	454,668
– More than 5 years	63,749	67,999
	<u>758,382</u>	<u>697,801</u>
Right-of-use assets – Others	4,955	8,345
	<u>763,337</u>	<u>706,146</u>

24 Other assets

	30 June 2024 HK\$'000	31 December 2023 HK\$'000
Interest receivable	1,987,061	1,928,043
Prepayments	548,337	549,247
Settlement accounts	1,384,598	1,121,891
Margin deposits paid	5,197,795	3,689,993
Factoring	23,731	56,387
Others	903,593	835,494
	<u>10,045,115</u>	<u>8,181,055</u>
Less: impairment allowances for other assets		
– 12-month ECL	(40,551)	(33,851)
– Lifetime ECL credit-impaired	(24,055)	(24,042)
	<u>9,980,509</u>	<u>8,123,162</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

25 Deposits from banks and other financial institutions

	30 June 2024 HK\$'000	31 December 2023 HK\$'000
Deposits from banks and other financial institutions		
– Measured at amortised cost	107,544,141	108,635,101
– Designated at fair value through profit or loss	13,303,698	14,083,698
	120,847,839	122,718,799
Accrued interest	423,805	311,631
	121,271,644	123,030,430

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\$15,148,777,000 as at 30 June 2024 (2023: HK\$9,451,551,000). The transactions are conducted on terms that are usual and customary to standard lending activities.

26 Deposits from customers

	30 June 2024 HK\$'000	31 December 2023 HK\$'000
Demand deposits and current accounts	39,007,712	31,621,432
Savings deposits	170,449,287	150,232,902
Time, call and notice deposits		
– Measured at amortised cost	392,967,532	396,905,240
– Designated at fair value through profit or loss	18,866,589	18,188,373
	621,291,120	596,947,947
Accrued interest	4,552,078	5,194,917
	625,843,198	602,142,864

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

27 Deferred income tax

The movements in the deferred income tax are as follows:

	30 June 2024 HK\$'000	31 December 2023 HK\$'000
At 1 January	1,807,054	2,060,665
(Debited)/credited to the condensed consolidated income statement	(74,595)	93,390
Debited to equity	(304,687)	(333,097)
Exchange difference and other adjustment	(16,737)	(13,904)
At 30 June/31 December	<u>1,411,035</u>	<u>1,807,054</u>

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

The Group has tax losses arising in Hong Kong of HK\$172,185,000 (2023: HK\$147,152,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for sometime and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

	30 June 2024 HK\$'000	31 December 2023 HK\$'000
Net deferred income tax assets recognised in the condensed consolidated statement of financial position	1,411,533	1,807,568
Net deferred income tax liabilities recognised in the condensed consolidated statement of financial position	(498)	(514)
At 30 June/31 December	<u>1,411,035</u>	<u>1,807,054</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

28 Debt securities in issue

	30 June 2024 HK\$'000	31 December 2023 HK\$'000
Debt securities in issue		
– Measured at amortised cost	17,279,340	17,452,280
– Designated at fair value through profit or loss	–	–
	17,279,340	17,452,280
Accrued interest	150,438	134,667
	17,429,778	17,586,947

29 Other liabilities

	30 June 2024 HK\$'000	31 December 2023 HK\$'000
Interest payable	2,040,423	2,078,283
Salaries and welfare payable	876,710	705,858
Settlement accounts	3,783,810	2,394,416
Margin deposits received	3,715,894	3,618,401
Factoring	23,731	56,387
Lease liabilities	765,979	702,470
Others	1,228,564	2,628,257
	12,435,111	12,184,072
Impairment allowances for loan commitment and financial guarantees		
– 12-month ECL	307,391	222,273
– Lifetime ECL not credit-impaired	10,926	10,162
	12,753,428	12,416,507

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period ended 30 June 2024 (31 December 2023: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

29 Other liabilities (continued)

29.1 Lease liabilities

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

As at 30 June 2024	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	44,732	295,325	361,462	64,460	765,979
As at 31 December 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	33,724	123,542	476,687	68,517	702,470

30 Share capital

	Number of shares (in thousands)	Ordinary shares HK\$'000
At 1 January 2023, 30 June 2023, 1 January 2024 & 30 June 2024	2,749,000	44,187,631

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.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

31 Additional equity instruments

	30 June 2024 HK\$'000	31 December 2023 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	19,897,375	19,897,375
	<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.

On 21 March 2023, the Bank restated the 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”).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

31 Additional equity instruments (continued)

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 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 1.5% of the book value of risk assets as required by law and regulation in the PRC. This reserve is used to offset accumulated losses or increase in capital.

As at 30 June 2024, the Group is not required to make “Regulatory Reserve” (31 December 2023: 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 2024 HK\$'000	30 June 2023 HK\$'000
Interest income	2,783,174	1,947,540
Interest expense ⁴	699,347	685,949
Net operating income ^{1,2,5}	59,940	228,630
Operating expenses ^{3,4}	4,809	5,241
	As at	
	30 June 2024 HK\$'000	31 December 2023 HK\$'000
Amounts due from ⁶	109,511,237	104,518,139
Amounts due to ⁶	78,458,873	97,242,167

- In accordance with the agreements dated 20 June 2017, 17 December 2018, 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.
- 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.
- In accordance with the service level agreements with the Bank dated 6 December 2023 (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.
- In accordance with the tenancy agreement with the ultimate holding company dated 9 March 2021, interest expense on lease liabilities and depreciation of right-of-use assets for the leasing of property located in Hong Kong are HK\$576,701 and HK\$4,249,946 respectively during first half of 2024 (first half of 2023: HK\$646,056 and HK\$4,249,946 respectively), and these are included in interest expense and operating expenses, respectively.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**33 Related-party transactions (continued)****33.1 Ultimate holding company (continued)**

5. Operating income includes net loss arising from the derivatives with the ultimate holding company in the amount of HK\$152,909,000 during first half of 2024 (first half of 2023: net gain of HK\$22,830,000).
6. As at 30 June 2024, derivatives assets and liabilities in the amount of HK\$257,216,000 and HK\$316,025,000, respectively are included in amounts due from and to the ultimate holding company respectively (2023: HK\$134,323,000 and HK\$297,494,000, respectively).

(i) Committed facilities

The Bank received conglomerate guarantee on loan from the ultimate holding company in the amount of HK\$2,739,581,000 (2023: HK\$4,421,741,000).

(ii) 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 2024 (first half of 2023: HK\$ Nil).

(iii) 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\$1,146,698,000 (first half of 2023: HK\$1,461,620,000). The total fee attributable to the above transactions of approximately HK\$731,000 (first half of 2023: HK\$798,000) 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 2024	30 June 2023
	HK\$'000	HK\$'000
Interest income	78,592	116,213
Interest expense	27,913	34,941
Net operating loss ¹	(104,279)	(56,775)
Operating expenses	32	51
	As at	
	30 June	31 December
	2024	2023
	HK\$'000	HK\$'000
Amounts due from	3,730,888	2,107,593
Amounts due to	2,245,229	4,129,293

1. Net operating loss includes net loss arising from the derivatives with fellow subsidiaries in the amount of HK\$113,943,000 during first half of 2024 (first half of 2023: net loss of HK\$61,509,000).

33.3 Associates

	For the six months ended	
	30 June 2024	30 June 2023
	HK\$'000	HK\$'000
Interest income	274	698
Interest expense	4	5,610
Operating income	31	190
	As at	
	30 June	31 December
	2024	2023
	HK\$'000	HK\$'000
Amounts due from	15,053	–
Amounts due to	1,567	10,653

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 2024	30 June 2023
	HK\$'000	HK\$'000
Interest income	682,499	567,285
Interest expense	71,425	103,911
Net operating income ¹	23,449	28,981
	As at	
	30 June	31 December
	2024	2023
	HK\$'000	HK\$'000
Amounts due from	41,919,884	35,076,365
Amounts due to	7,581,565	8,914,760

1. Net operating income includes net gain arising from the derivatives with other state-controlled entities and government authorities in the amount of HK\$21,952,000 during first half of 2024 (first half of 2023: net loss of HK\$3,101,000).

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.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

33 Related-party transactions (continued)

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 2024	30 June 2023
	HK\$'000	HK\$'000
Employee benefits	22,178	21,599

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 2024	30 June 2023
	HK\$'000	HK\$'000
Interest income	143	73
Interest expense	1,366	1,544
Operating income	7	9
Operating expenses	29	28

	As at	
	30 June 2024	31 December 2023
	HK\$'000	HK\$'000
Loans and advances	13,460	13,094
Deposits	154,019	205,912

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

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.

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 2024		31 December 2023	
	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	5,689,446	5,622,792	2,836,468	2,724,168
Securities lending agreements	9,459,332	8,493,632	6,615,083	6,045,890

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 2024, the Group retained obligation on those PRC discounted bills transferred and derecognised but not matured with a carrying amount of HK\$418,361,000 (31 December 2023: Nil). All the transferred discounted bills at year will be matured within a year.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

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 2024	30 June 2024	31 December 2023	31 December 2023
	Contractual amount	Credit risk weighted amount	Contractual amount	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Direct credit substitutes	15,853,273	14,387,432	13,067,665	7,317,160
Transaction-related contingencies	901,123	370,951	570,852	204,131
Trade-related contingencies	18,805,146	3,639,342	28,325,139	5,575,534
Forward asset purchases	133,638	162,104	138,397	166,700
Forward deposit placed	1,450,000	290,000	–	–
Other commitments with an original maturity of:				
– Unconditionally cancellable	144,699,993	–	143,866,599	–
– With original maturity of less than one year	389,269	194,635	–	–
– With original maturity of over one year	49,859,012	21,457,430	57,201,086	25,720,312
	<u>232,091,454</u>	<u>40,501,894</u>	<u>243,169,738</u>	<u>38,983,837</u>

35.2 Capital commitments

Capital commitments for property, plant and equipment outstanding as at 30 June 2024 and 31 December 2023 not provided for in the financial statements are as follows:

	30 June 2024	31 December 2023
	HK\$'000	HK\$'000
Expenditure contracted, but not provided for	153,271	144,714
Expenditure authorised, but not contracted for	–	41,788
	<u>153,271</u>	<u>186,502</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**36 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 had a right to purchase back the shares (the “call option”) while the Investor had 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 when 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 was less than 20% but it was considered to be an associate because of the significant influence the Group was able to exercise over the management of Infinium and its financial and operating policies. This influence was evidenced largely through the representation on the Board of Directors in Infinium and the provision of technical expertise. The Group applied the equity method of accounting for its investment in Infinium.

In the current interim period, the Group lost the significant influence over the management of Infinium Holdings Limited (“Infinium”) due to the resignation of the Group’s representation on the Board of Directors in Infinium on 19 April 2024. Before the loss of significant influence, the Group owned 6.01% interest in Infinium and the investment was previously accounted as an investment in an associate using the equity method of accounting. The Group has retained the remaining 6.01% interest and classified the retained investment as financial investment measured at FVTOCI.