



Bank of Communications (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

2021 INTERIM REPORT



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Bank of Communications (Hong Kong) Limited

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BANK OF COMMUNICATIONS (HONG KONG) LIMITED
INTERIM REPORT 2021

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Report on Review of Interim Report

To the Board of Directors of Bank of Communications (Hong Kong) Limited

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the Interim Report set out on pages 3 to 42, which comprises the unaudited condensed interim statement of financial position of Bank of Communications (Hong Kong) Limited (the “Bank”) as at 30 June 2021 and the unaudited condensed interim statement of profit or loss and other comprehensive income, the unaudited condensed interim statement of changes in equity and the unaudited condensed interim statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Bank are responsible for the preparation and presentation of this Interim Report in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this Interim Report based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of Interim Report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Interim Report of the Bank is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 8 September 2021

Unaudited Condensed Interim Statement of Profit or Loss and Other Comprehensive Income

(All amounts expressed in thousands of HK\$ unless otherwise stated)

		Six months ended 30 June	
		2021	2020
	Notes		
Interest income		2,857,595	2,821,333
Interest expense		(1,121,319)	(1,745,800)
Net interest income	4	1,736,276	1,075,533
Fee and commission income	5	564,995	408,220
Fee and commission expense	6	(33,737)	(26,992)
Net fee and commission income		531,258	381,228
Net gains arising from trading activities	8	81,253	324,686
Net gains arising from financial investments		173,088	140,289
Dividend income	7	35	35
Other operating income	9	14,639	7,367
Change in expected credit losses	10	2,632	(266,012)
Other operating expenses	11	(885,913)	(709,478)
Profit before tax		1,653,268	953,648
Income tax expenses	12	(241,734)	(166,384)
Net profit for the period		1,411,534	787,264
Other comprehensive income/(expense) for the period, net of tax			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
<i>Equity investments at fair value through other comprehensive income – net change in fair value</i>		(262)	(172)
<i>Item that may be reclassified to profit or loss:</i>			
<i>Debt investments at fair value through other comprehensive income</i>			
<i>Net gains/(losses) recorded in equity</i>		764,768	(472,365)
<i>Net gains reclassified from equity to profit or loss</i>		(144,528)	(117,141)
Other comprehensive income/(expense) for the period		619,978	(589,678)
Total comprehensive income for the period		2,031,512	197,586

The accompanying notes form a part of these unaudited condensed interim financial statements.

Unaudited Condensed Interim Statement of Financial Position

(All amounts expressed in thousands of HK\$ unless otherwise stated)

		As at 30 June 2021	As at 31 December 2020
	<i>Notes</i>		
ASSETS			
Cash and balances with central bank	13	11,130,793	8,438,950
Due from banks and other financial institutions	14	20,358,695	20,094,736
Financial assets at fair value through profit or loss	15	2,175,897	905,433
Financial assets at fair value through other comprehensive income	18	216,811,557	201,947,823
Loans and advances to customers	17	173,403,080	137,514,670
Property and equipment	19	53,700	55,792
Current tax assets		–	50,290
Right-of-use assets		210,610	234,130
Other assets	20	3,271,765	3,722,018
Total assets		427,416,097	372,963,842
LIABILITIES			
Due to banks and other financial institutions	21	45,398,400	71,659,676
Due to customers	22	323,388,460	245,749,909
Financial liabilities at fair value through profit or loss	23	1,459,567	2,783,985
Certificates of deposits issued	24	3,744,199	–
Current tax liabilities		204,096	–
Deferred income tax liabilities		273,410	163,500
Lease liabilities		214,128	238,333
Other liabilities	25	3,657,415	5,251,296
Total liabilities		378,339,675	325,846,699
EQUITY			
Share capital	26	37,900,000	37,900,000
Additional equity instrument	27	3,871,450	3,871,450
Other reserves		1,882,627	1,262,649
Retained earnings		5,422,345	4,083,044
Total equity		49,076,422	47,117,143
Total equity and liabilities		427,416,097	372,963,842

The unaudited condensed interim financial statement was approved and authorized for issue by the Board of Directors on 8 September 2021 and signed on its behalf by:

Wu Ye, Executive Director

Fan Chaorong, Executive Director

The accompanying notes form a part of these unaudited condensed interim financial statements.

Unaudited Condensed Interim Statement of Changes in Equity

(All amounts expressed in thousands of HK\$ unless otherwise stated)

	Attributable to the shareholder of the Bank				
	Share capital	Additional equity instrument	Other reserves	Retained earnings (Note (a))	Total
At 1 January 2021	37,900,000	3,871,450	1,262,649	4,083,044	47,117,143
Net profit for the period	–	–	–	1,411,534	1,411,534
Other comprehensive income	–	–	619,978	–	619,978
	37,900,000	3,871,450	1,882,627	5,494,578	49,148,655
Dividends paid to additional equity instrument holders	–	–	–	(72,233)	(72,233)
At 30 June 2021	37,900,000	3,871,450	1,882,627	5,422,345	49,076,422
At 1 January 2020	17,900,000	–	481,164	2,704,844	21,086,008
Net profit for the period	–	–	–	787,264	787,264
Other comprehensive expense	–	–	(589,678)	–	(589,678)
Issuance of additional equity instrument	–	3,871,450	–	–	3,871,450
At 30 June 2020	17,900,000	3,871,450	(108,514)	3,492,108	25,155,044

Note (a):

In accordance with the requirements of the Hong Kong Monetary Authority (the “HKMA”), the regulatory reserve is set aside for general banking risks, including future losses or other unforeseeable risks. The regulatory reserve is set up in compliance with the HKMA’s requirements and is distributable to shareholder of the Bank subject to consultation with the HKMA. As at 30 June 2021, HK\$1,009,091,000 (30 June 2020: HK\$489,915,000) was earmarked as the regulatory reserve from the retained earnings.

The accompanying notes form a part of these unaudited condensed interim financial statements.

Unaudited Condensed Interim Statement of Cash Flows

(All amounts expressed in thousands of HK\$ unless otherwise stated)

		Six months ended 30 June	
		2021	2020
	Notes		
Cash flows from operating activities:			
Profit before tax		1,653,268	953,648
Adjustments for:			
Change in expected credit losses		(2,632)	266,012
Depreciation and amortization		12,383	11,506
Depreciation of right-of-use assets		81,295	91,292
Finance costs – lease interest expense		1,548	2,496
Loss on disposal of property and equipment		7	–
Interest income from financial investments		(1,542,232)	(1,497,688)
Fair value losses/(gains)		55,051	(54,698)
Dividend income		(35)	(35)
Withholding tax		–	144
Net gains arising from financial investments		(173,088)	(140,289)
Operating cash flows before movements in operating assets and liabilities		85,565	(367,612)
Net decrease in due from banks and other financial institutions		1,042,229	4,114,407
Net (increase)/decrease in financial assets at fair value through profit or loss		(1,325,515)	634,437
Net increase in loans and advances to customers		(35,991,291)	(10,690,638)
Net decrease in other assets		737,116	1,734,051
Net (decrease)/increase in due to banks and other financial institutions		(26,261,276)	14,061,034
Net (decrease)/increase in financial liabilities at fair value through profit or loss		(1,324,418)	2,195,777
Net increase in due to customers		77,638,551	38,836,015
Net increase in certificates of deposits issued		3,744,199	–
Net decrease in other liabilities		(1,593,367)	(344,793)
Income tax paid		–	(288,156)
Net cash inflows from operating activities		16,751,793	49,884,522
Cash flows from investing activities:			
Purchase of financial investments		(62,283,643)	(91,302,315)
Disposal or redemption of financial investments		48,432,427	45,600,732
Dividend received		35	35
Interest received from financial investments		1,254,259	1,143,639
Purchase of intangible assets		(907)	(1,401)
Purchase of property and equipment		(7,847)	(4,166)
Net cash outflows from investing activities		(12,605,676)	(44,563,476)
Cash flows from financing activities:			
Principal elements of lease payments		(81,980)	(90,854)
Interest paid for lease		(1,548)	(2,496)
Dividend paid to additional equity instrument holders		(72,233)	–
Issuance of additional equity instrument		–	3,871,450
Net cash (outflows)/inflows from financing activities		(155,761)	3,778,100
Net increase in cash and cash equivalents		3,990,356	9,099,146
Cash and cash equivalents at the beginning of the period		24,210,716	6,034,595
Cash and cash equivalents at the end of the period	29	28,201,072	15,133,741

The accompanying notes form a part of these unaudited condensed interim financial statements.

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

1 GENERAL

Bank of Communications (Hong Kong) Limited ("the Bank") is a company incorporated and domiciled in Hong Kong. The address of its registered office is 20 Pedder Street, Central, Hong Kong and principal place of business is Unit B B/F & G/F, Unit C G/F, 1-3/F, 16/F Rm01 & 18/F Wheelock House, 20 Pedder Street, Central, Hong Kong. Its ultimate holding company is Bank of Communications Co., Ltd., which is incorporated in the People's Republic of China.

On 29 September 2015, the Hong Kong Monetary Authority granted the Bank a banking licence under the Banking Ordinance.

On 6 January 2020, the Bank has altered its articles of association and the Bank's status has been changed from a private company to a public company with effect from 6 January 2020.

In March 2020, the Bank issued USD500 million undated non-cumulative subordinated Additional Tier 1 capital securities.

In September 2020, the Bank issued HKD20 billion share capital to Bank of Communications Co., Ltd.

These unaudited condensed interim financial statements are presented in thousands of Hong Kong Dollars (HK\$), unless otherwise stated.

The financial information relating to the year ended 31 December 2020 that is included in the unaudited condensed interim financial statements for the six months ended 30 June 2021 as comparative information does not constitute the Bank's statutory annual financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Bank has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Bank'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 sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

The regulatory disclosure information required under the Banking (Disclosure) Rules is available in the Regulatory Disclosures Section of our website www.hk.bankcomm.com.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS

2.1 Basis of preparation and principal accounting policies

These unaudited condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting*. The financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

The Bank adopts the going concern basis in preparing its unaudited condensed interim financial statements.

These unaudited condensed interim financial statements of the Bank do not include all the notes of the types normally included in annual financial statements. Accordingly, these unaudited condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2020.

Except as described below, the Bank's accounting policies applied in preparing these unaudited condensed interim financial statements are consistent with those policies applied in preparing the financial statements for the year ended 31 December 2020.

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

2.1 Basis of preparation and principal accounting policies *(continued)*

2.1.1 New and revised HKFRSs effective by 1 January 2021 applied by the Bank

Amendments to HKFRS 9, HKAS 39, HKFRS 7, Interest Rate Benchmark Reform
HKFRS 4 and HKFRS 16

The amendments to HKFRS 9, HKAS 39 and HKFRS 7 provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to Interest Rate Benchmark Reform. Key changes include:

- modifying specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;
- mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;
- are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and
- requiring specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

The Bank has established a project to manage the transition for any of its contracts that could be affected. The project is coordinated by Deputy Chief Executive and involved senior representatives from functions across the Bank including the asset and liability management, front line business and product management, legal and compliance, finance, risk management, operations and technology. The project team provides progress updates to the project steering committee and the senior management at least on a monthly basis.

The Bank applies hedge accounting on hedging its interest rate risk on certain debt investments, loans and advances to customers and therefore is exposed to changes in fair value due to movements in market rates. The Bank's derivatives instruments designated in hedge accounting relationships have floating legs that are indexed to with HIBOR or USD LIBOR. The Bank has fair value hedge accounting relationships mature beyond the anticipated cessation date for USD LIBOR. The Bank expects that USD LIBOR will be discontinued after the end of 2021. Secured Overnight Financing Rate ("SOFR") is recommended as the alternative reference rate ("ARR").

Significant judgement will be required in determining when uncertainty is expected to be resolved and when the targeted relief will cease to apply. As at 30 June 2021, the Bank believes uncertainty continues to exist as to when and how the replacement may occur with respect to the relevant derivative hedging instruments and so the targeted reliefs applied to the Bank's hedge accounting relationships that reference benchmarks subject to reform or replacement.

As at 30 June 2021, the derivative instruments designated in fair value hedge accounting relationships were linked to interbank offered rate reference rates and directly affected by the amendments:

	Notional amount
Fair value hedge	
Interest rate contract	
USD London Interbank Offered Rate	91,225,625

The notional amount of derivative hedging instruments provides a close approximation to the extent of the risk exposure the Bank manages through hedging relationships that is directly affected by the reform and impacted by the amendments. The notional contract amounts of interest rate derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding as at the reporting date, they do not represent amounts at risk.

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

2.1 Basis of preparation and principal accounting policies *(continued)*

2.1.1 New and revised HKFRSs effective by 1 January 2021 applied by the Bank *(continued)*

During 2021, the Bank has successfully completed the transition of a significant portion of its Interbank Offered Rate ("IBOR") exposure to the ARR and has in place detailed plans, processes and procedures to support the transition of the remainder by the end of 2021. The Bank is confident that it has the operational capability to process the large volume of transitions to the ARR that will be necessary during 2021 for those interest rate benchmarks such as USD LIBOR that will cease to be available and so will be replaced by SOFR.

IBOR reform exposes the Bank to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

1. Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform
2. Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses
3. Pricing risk from the potential lack of market information if liquidity in IBORs reduces and ARRs are illiquid and unobservable
4. Operational risk arising from changes to the Bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available
5. Accounting risk if the Bank's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to ARRs

The table below shows the Bank's exposure as at 30 June 2021 to significant IBORs subject to reform that have yet to transition to ARRs. These exposures will remain outstanding until the IBOR ceases and will therefore transit in future, e.g., the table excludes exposures to IBOR that will expire before transition is required.

	Non-derivative financial assets carrying value	Non-derivative financial liabilities carrying value	Derivatives nominal amounts (Note a)
USD London Interbank Offered Rate with different tenors	34,047,289	313,749	89,392,174
EUR London Interbank Offered Rate with different tenors	147,857	–	–
GBP London Interbank Offered Rate with different tenors	1,074,307	–	–
Total	35,269,453	313,749	89,392,174

Note a: The IBOR exposures for derivatives nominal amounts include loan commitments.

The Bank has initially adopted the new amendments to HKFRS 9, HKAS 39 and HKFRS 7 from 1 January 2021 and concluded it does not have material impact on the Bank's operating results, financial position or other comprehensive income.

2.1.2 Standards and amendments that are not yet effective and have not been adopted by the Bank

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2021 reporting periods and have not been early adopted by the Bank. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Critical accounting estimates and judgments in applying accounting policies

The preparation of these unaudited condensed interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this unaudited condensed interim financial statements, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2020, except for those applied in determining forward-looking information incorporated in the calculation of expected credit loss ("ECL") of financial instruments. Details of changes in these significant judgements are further set out under note 3.1.1.2.

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT

3.1 Credit risk

3.1.1 Expected credit loss measurement

3.1.1.1 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default. For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

The ECL is determined by projecting the PD, LGD and EAD for each future year and for each individual exposure. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier year). This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by using forecasted macroeconomic factor to calculate a forecasted 12M PD for the 2nd to 5th year. For the years after the fifth year, it is assumed that the PD will remain the same.

EAD represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses to be incurred. In general, this includes the utilized credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.

3.1.1.2 Forward-looking information incorporated in the ECL models

The assessment of significant increase in credit risk and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") over the next five years are gathered from economics team of the Bank of Communications Co., Ltd., Bank of Communications Co., Ltd. Hong Kong Branch's Development Strategy Team and the International Monetary Fund ("IMF"). After five years, economic variables are assumed to remain stable and the last available forecast is used. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Expected credit loss measurement *(continued)*

3.1.1.2 Forward-looking information incorporated in the ECL models *(continued)*

In addition to the base economic scenario, the Bank's Risk Management Department and Development Strategy Team have also considered other economic scenarios which are calculated using historical data, along with weightings for each of the scenarios. The number of scenarios and their attributes are reassessed at each reporting date. At 1 January 2021 and 30 June 2021, the Bank concluded that three scenarios are appropriate. The scenario weightings are determined by expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

Following this assessment, the Bank then measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihoods of occurrence of the economic scenarios are based on estimates to future economic conditions which are sensitive to changes in these conditions caused by macro events, including the COVID-19 pandemic and geopolitical developments. They are therefore subject to a high degree of inherent uncertainty and the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios. The proposed macroeconomic forecasts and probability weightings are subject to management review.

Economic variable assumptions

The COVID-19 pandemic has created unprecedented economic and social challenges to all regions of the world. In order to limit the spread of COVID-19, different restrictions (including social distancing or lock down) are implemented by governments over the world which resulted in a sharp decline in global economic activities in the year of 2020. At the same time, different forms of relief measures have also been rolled out by governments around the world at unprecedented scale and speed to prevent the further deterioration and support the recovery of economies. It is observed that economic activities in major economies have gradually recovered in the first half of 2021 and it is expected that recovery would occur globally.

The above development of COVID-19 pandemic and geopolitical environment changes in the first half of 2021 have added complications to the estimates of the economic scenarios and caused the Bank to revisit its economic scenarios and probability weightings in calculating ECL.

The Bank has adopted the use of three economic scenarios for all portfolios. They represent a most likely scenario (the Base scenario) and two, less likely, "outer" scenarios on either side of the Base scenario, referred to as an "Upside" and a "Downside" scenario respectively.

Our base scenario can be described as follows: After a severe economic shock to the global economy is observed in 2020, a notable recovery is expected in 2021 as COVID-19 vaccination programme is launched subsequently, pandemic containment measures will be loosened and global economic activities could be resumed accordingly. A moderate growth is expected afterwards as relief measures are expected to cease gradually. GDP in most regions contracted in 2020 and is expected to rebound in 2021. However, the level of recovery is highly uneven in the global economy. China's GDP will expand largely while a moderate growth is forecasted in Hong Kong. The unemployment rate is expected to drop slightly in 2021 in most of the regions compared with the high level of 2020. It is forecasted to return to the growth level similar to that in 2019 gradually over the future years.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory or legislative changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored by management for appropriateness on a regular basis.

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Expected credit loss measurement *(continued)*

3.1.1.2 Forward-looking information incorporated in the ECL models *(continued)*

Sensitivity analysis

The following table presents the base ECL scenario compared to the probability-weighted ECL derived from using three ECL scenarios. The difference reflects the impact of deriving multiple scenarios around the base ECL and resultant change in ECL due to non-linearity and sensitivity to using macroeconomic forecasts.

Change from Base to Probability-weighted ECL	As at 30 June 2021	As at 31 December 2020
Probability-weighted ECL	938,634	943,930
Base ECL	632,103	520,127
Difference in amount	306,531	423,803
Difference in percentage	32.7%	44.9%

Management overlay

With evolution of coronavirus variants, it is difficult to relax cross-border restrictions with mainland China or rest of the world in the short term. As Hong Kong's local economy is highly dependent on external circumstances, local tourism, retail, catering and other industries will continue to be under pressure, and it may continue to deteriorate rather than recover in the near future. However, the relief measures of the Hong Kong government are still maintained. The future risks of loans to local Small and Medium Enterprises ("SMEs") in the Bank's loan portfolio have not been fully reflected in the model, thus management overlay has been made for the period ended 30 June 2021.

As far as HKFRS 9 is concerned, management overlay refers to the short-term increase or decrease in ECL to take into account for late-breaking events, model and data limitations, and expert judgement applied after management's review and challenge.

Management judgmental adjustments made in estimating the reported ECL at 30 June 2021 are set out in the following table. The table includes adjustments in relation to data and model limitations resulting from the COVID-19 pandemic. It shows the adjustments applicable to the probability-weighted ECL.

	As at 30 June 2021
SME lending adjustments	154,147
Probability-weighted ECL	938,634
Percentage of adjustments	16.4%

The Bank will continue to monitor the local epidemic and economic situations and the cessation of the government's relief measures, review, timely and periodically, the risks of loans to local SMEs and exit the management overlay at an appropriate time.

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Credit risk exposure – Collateral

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. The fair value is capped at lower of carrying amount and fair value. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

As at 30 June 2021:

	Gross exposure	ECL allowance	Carrying amount	Fair value of collateral held
Loans to individuals	53,608	(21,963)	31,645	30,905
Loans to corporate entities	106,385	(38,133)	68,252	36,549
	159,993	(60,096)	99,897	67,454

As at 31 December 2020:

	Gross exposure	ECL allowance	Carrying amount	Fair value of collateral held
Loans to individuals	47,811	(18,815)	28,996	27,245
Loans to corporate entities	58,071	(25,418)	32,653	17,327
	105,882	(44,233)	61,649	44,572

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For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.3 Movements of gross carrying amount and ECL allowance

Movement of gross amount – Corporate Loan

Corporate Loan	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	92,308,570	1,778,994	58,071	94,145,635
Transfers:				
Transfer from Stage 1 to Stage 2	(186,066)	186,066	–	–
Transfer from Stage 1 to Stage 3	(25,176)	–	25,176	–
Transfer from Stage 2 to Stage 1	1,279,951	(1,279,951)	–	–
Transfer from Stage 2 to Stage 3	–	(19,223)	19,223	–
New financial assets originated or purchased, assets derecognized, repayments and further lending (Note)	29,310,506	(174,226)	4,471	29,140,751
Foreign exchange and other movements	32,609	370	(556)	32,423
Gross carrying amount as at 30 June 2021	122,720,394	492,030	106,385	123,318,809

Note: The balances include the corporate loans originated or purchased in the period and subsequently transferred between stage 1, stage 2 and stage 3 during the period.

Corporate Loan	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	44,022,858	324,460	32,605	44,379,923
Transfers:				
Transfer from Stage 1 to Stage 2	(630,515)	630,515	–	–
Transfer from Stage 1 to Stage 3	(28,994)	–	28,994	–
Transfer from Stage 2 to Stage 1	70,871	(70,871)	–	–
Transfer from Stage 2 to Stage 3	–	(5,254)	5,254	–
New financial assets originated or purchased, assets derecognized, repayments and further lending (Note)	48,885,110	900,144	(8,756)	49,776,498
Foreign exchange and other movements	(10,760)	–	(26)	(10,786)
Gross carrying amount as at 31 December 2020	92,308,570	1,778,994	58,071	94,145,635

Note: The balances include the corporate loans originated or purchased in the period and subsequently transferred between stage 1, stage 2 and stage 3 during the period.

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For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.3 Movements of gross carrying amount and ECL allowance *(continued)*

Movement of ECL allowance – Corporate Loan

	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Corporate Loan				
ECL allowance as at 1 January 2021	297,231	80,938	25,418	403,587
Transfers:				
Transfer from Stage 1 to Stage 2	(932)	932	–	–
Transfer from Stage 1 to Stage 3	(45)	–	45	–
Transfer from Stage 2 to Stage 1	41,286	(41,286)	–	–
Transfer from Stage 2 to Stage 3	–	(801)	801	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	118,528	(12,735)	2,283	108,076
Changes in PDs/LGDs/EADs	(42,086)	10,836	9,256	(21,994)
Unwind of discount	1,183	697	193	2,073
Foreign exchange and other movements	51	97	137	285
ECL allowance amount as at 30 June 2021	415,216	38,678	38,133	492,027
	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Corporate Loan				
ECL allowance as at 1 January 2020	138,330	16,797	14,316	169,443
Transfers:				
Transfer from Stage 1 to Stage 2	(5,758)	5,758	–	–
Transfer from Stage 1 to Stage 3	(103)	–	103	–
Transfer from Stage 2 to Stage 1	8,584	(8,584)	–	–
Transfer from Stage 2 to Stage 3	–	(412)	412	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	171,491	41,291	(859)	211,923
Changes in PDs/LGDs/EADs	(14,429)	25,813	10,729	22,113
Unwind of discount	–	395	–	395
Foreign exchange and other movements	(884)	(120)	717	(287)
ECL allowance amount as at 31 December 2020	297,231	80,938	25,418	403,587

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.3 Movements of gross carrying amount and ECL allowance (continued)

Movement of gross amount – Retail Loan

Retail Loan	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	43,122,089	624,159	47,811	43,794,059
Transfers:				
Transfer from Stage 1 to Stage 2	(53,833)	53,833	–	–
Transfer from Stage 1 to Stage 3	(18,667)	–	18,667	–
Transfer from Stage 2 to Stage 1	534,869	(534,869)	–	–
Transfer from Stage 2 to Stage 3	–	(10,691)	10,691	–
Transfer from Stage 3 to Stage 1	4,847	–	(4,847)	–
Transfer from Stage 3 to Stage 2	–	9	(9)	–
New financial assets originated or purchased, assets derecognized, repayments and further lending (Note)	6,885,432	(14,191)	(15,917)	6,855,324
Write-offs	–	–	(2,788)	(2,788)
Foreign exchange and other movements	1,410	50	–	1,460
Gross carrying amount as at 30 June 2021	50,476,147	118,300	53,608	50,648,055

Note: The balances include the retail loans originated or purchased in the period and subsequently transferred between stage 1, stage 2 and stage 3 during the period.

Retail Loan	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	34,831,205	246,680	29,783	35,107,668
Transfers:				
Transfer from Stage 1 to Stage 2	(495,487)	495,487	–	–
Transfer from Stage 1 to Stage 3	(20,502)	–	20,502	–
Transfer from Stage 2 to Stage 1	122,902	(122,902)	–	–
Transfer from Stage 2 to Stage 3	–	(8,188)	8,188	–
Transfer from Stage 3 to Stage 1	5	–	(5)	–
New financial assets originated or purchased, assets derecognized, repayments and further lending (Note)	8,686,009	13,097	(6,456)	8,692,650
Write-offs	–	–	(4,203)	(4,203)
Foreign exchange and other movements	(2,043)	(15)	2	(2,056)
Gross carrying amount as at 31 December 2020	43,122,089	624,159	47,811	43,794,059

Note: The balances include the retail loans originated or purchased in the period and subsequently transferred between stage 1, stage 2 and stage 3 during the period.

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For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.3 Movements of gross carrying amount and ECL allowance (continued)

Movement of ECL allowance – Retail Loan

	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Retail Loan				
ECL allowance amount as at 1 January 2021	83,968	68,427	18,815	171,210
Transfers:				
Transfer from Stage 1 to Stage 2	(259)	259	–	–
Transfer from Stage 1 to Stage 3	(53)	–	53	–
Transfer from Stage 2 to Stage 1	54,783	(54,783)	–	–
Transfer from Stage 2 to Stage 3	–	(1,744)	1,744	–
Transfer from Stage 3 to Stage 1	41	–	(41)	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	26,560	(2,878)	(232)	23,450
Changes in PDs/LGDs/EADs	(28,215)	13,701	4,048	(10,466)
Unwind of discount	381	573	271	1,225
Recoveries of loans written-off in previous years	–	–	159	159
Write-offs	–	–	(2,788)	(2,788)
Foreign exchange and other movements	293	5	(66)	232
ECL allowance amount as at 30 June 2021	137,499	23,560	21,963	183,022

	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Retail Loan				
ECL allowance amount as at 1 January 2020	90,033	43,605	14,329	147,967
Transfers:				
Transfer from Stage 1 to Stage 2	(1,155)	1,155	–	–
Transfer from Stage 1 to Stage 3	(58)	–	58	–
Transfer from Stage 2 to Stage 1	26,588	(26,588)	–	–
Transfer from Stage 2 to Stage 3	–	(2,816)	2,816	–
Transfer from Stage 3 to Stage 1	4	–	(4)	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	16,963	8,588	11	25,562
Changes in PDs/LGDs/EADs	(48,283)	43,676	5,112	505
Unwind of discount	–	771	–	771
Recoveries of loans written-off in previous years	–	–	392	392
Write-offs	–	–	(4,203)	(4,203)
Foreign exchange and other movements	(124)	36	304	216
ECL allowance amount as at 31 December 2020	83,968	68,427	18,815	171,210

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For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.3 Movements of gross carrying amount and ECL allowance (continued)

Movement of ECL allowance – loans and advances to customers

	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Loans and advances to customers				
ECL allowance amount as at 1 January 2021	381,199	149,365	44,233	574,797
Transfers:				
Transfer from Stage 1 to Stage 2	(1,191)	1,191	–	–
Transfer from Stage 1 to Stage 3	(98)	–	98	–
Transfer from Stage 2 to Stage 1	96,069	(96,069)	–	–
Transfer from Stage 2 to Stage 3	–	(2,545)	2,545	–
Transfer from Stage 3 to Stage 1	41	–	(41)	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	145,088	(15,613)	2,051	131,526
Changes in PDs/LGDs/EADs	(70,301)	24,537	13,304	(32,460)
Unwind of discount	1,564	1,270	464	3,298
Recoveries of loans written-off in previous years	–	–	159	159
Write-offs	–	–	(2,788)	(2,788)
Foreign Exchange and other movements	344	102	71	517
ECL allowance amount as at 30 June 2021	552,715	62,238	60,096	675,049

	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Loans and advances to customers				
ECL allowance amount as at 1 January 2020	228,363	60,402	28,645	317,410
Transfers:				
Transfer from Stage 1 to Stage 2	(6,913)	6,913	–	–
Transfer from Stage 1 to Stage 3	(161)	–	161	–
Transfer from Stage 2 to Stage 1	35,172	(35,172)	–	–
Transfer from Stage 2 to Stage 3	–	(3,228)	3,228	–
Transfer from Stage 3 to Stage 1	4	–	(4)	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	188,454	49,879	(848)	237,485
Changes in PDs/LGDs/EADs	(62,712)	69,489	15,841	22,618
Unwind of discount	–	1,166	–	1,166
Recoveries of loans written-off in previous years	–	–	392	392
Write-offs	–	–	(4,203)	(4,203)
Foreign Exchange and other movements	(1,008)	(84)	1,021	(71)
ECL allowance amount as at 31 December 2020	381,199	149,365	44,233	574,797

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For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.3 Movements of gross carrying amount and ECL allowance *(continued)*

Movement of gross amount – debt securities at fair value through other comprehensive income

Debt securities at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	201,938,126	–	–	201,938,126
New financial assets originated or purchased, assets derecognized, repayments and further lending	14,835,583	–	–	14,835,583
Foreign exchange and other movements	28,413	–	–	28,413
Gross carrying amount as at 30 June 2021	216,802,122	–	–	216,802,122

Debt securities at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	122,232,308	–	–	122,232,308
New financial assets originated or purchased, assets derecognized, repayments and further lending	77,265,950	–	–	77,265,950
Foreign exchange and other movements	2,439,868	–	–	2,439,868
Gross carrying amount as at 31 December 2020	201,938,126	–	–	201,938,126

Movement of ECL allowance – debt securities at fair value through other comprehensive income

Debt securities at fair value through other comprehensive income	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL Allowance	Total
ECL allowance amount as at 1 January 2021	318,962	–	–	318,962
New financial assets originated or purchased, assets derecognized, repayments and further lending	33,871	–	–	33,871
Changes in PDs/LGDs/EADs	(133,122)	–	–	(133,122)
Unwind of discount	2,038	–	–	2,038
Foreign exchange and other movements	323	–	–	323
ECL allowance amount as at 30 June 2021	222,072	–	–	222,072

Debt securities at fair value through other comprehensive income	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL Allowance	Total
ECL allowance amount as at 1 January 2020	121,331	–	–	121,331
New financial assets originated or purchased, assets derecognized, repayments and further lending	141,029	–	–	141,029
Changes in PDs/LGDs/EADs	55,984	–	–	55,984
Foreign exchange and other movements	618	–	–	618
ECL allowance amount as at 31 December 2020	318,962	–	–	318,962

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(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Fair value of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Bank are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed periodically.

Fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1: The fair value of financial instruments traded in active markets is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1.
- Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value for level 2 financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- Calculation of the present value of the estimated future cash flows based on observable yield curves for interest rate swaps.
- The fair value of foreign currency forwards is determined using forward exchange rates at the balance sheet date.
- The fair value of the remaining financial instruments is determined using discounted cash flow analysis.

Notes to the Unaudited Condensed Interim Financial Statements

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(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Fair value of financial assets and liabilities *(continued)*

(b) Financial assets and financial liabilities measured at fair value on a recurring basis

The table below summarizes the information relating to the fair value hierarchy of the financial assets and financial liabilities measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
As at 30 June 2021				
Financial assets at fair value through profit or loss				
Debt securities				
– Banks and other financial institutions	582,046	–	–	582,046
Derivative financial instruments				
– Foreign exchange contracts	–	437,867	–	437,867
– Interest rate contracts and others	–	1,155,984	–	1,155,984
	582,046	1,593,851	–	2,175,897
As at 30 June 2021				
Financial assets at fair value through other comprehensive income				
Debt securities				
– Governments and central banks	25,210,182	974,498	–	26,184,680
– Banks and other financial institutions	106,219,622	18,619,317	–	124,838,939
– Corporate entities	64,683,387	1,095,116	–	65,778,503
Equity securities				
– Banks and other financial institutions	–	–	9,435	9,435
	196,113,191	20,688,931	9,435	216,811,557
Total financial assets measured at fair value	196,695,237	22,282,782	9,435	218,987,454
As at 30 June 2021				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
– Foreign exchange contracts	–	259,653	–	259,653
– Interest rate contracts and others	–	1,199,914	–	1,199,914
Total financial liabilities measured at fair value	–	1,459,567	–	1,459,567

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For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Fair value of financial assets and liabilities *(continued)*

(b) Financial assets and financial liabilities measured at fair value on a recurring basis (continued)

	Level 1	Level 2	Level 3	Total
As at 31 December 2020				
Financial assets at fair value through profit or loss				
Derivative financial instruments				
– Foreign exchange contracts	–	705,726	–	705,726
– Interest rate contracts and others	–	199,707	–	199,707
	–	905,433	–	905,433
As at 31 December 2020				
Financial assets at fair value through other comprehensive income				
Debt securities				
– Governments and central banks	26,521,450	860,630	–	27,382,080
– Banks and other financial institutions	101,091,487	19,476,813	–	120,568,300
– Corporate entities	53,580,340	407,406	–	53,987,746
Equity securities				
– Banks and other financial institutions	–	–	9,697	9,697
	181,193,277	20,744,849	9,697	201,947,823
Total financial assets measured at fair value	181,193,277	21,650,282	9,697	202,853,256
As at 31 December 2020				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
– Foreign exchange contracts	–	982,850	–	982,850
– Interest rate contracts and others	–	1,801,135	–	1,801,135
Total financial liabilities measured at fair value	–	2,783,985	–	2,783,985

Notes to the Unaudited Condensed Interim Financial Statements

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(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Bank are subject to enforceable master netting arrangements or similar agreements. The agreement between the Bank and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Bank are not offset in accordance with HKFRS.

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 30 June 2021 and 31 December 2020. The column 'net amount' shows the impact on the Bank's statement of financial position if all set-off rights were exercised.

	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
As at 30 June 2021							
Financial assets							
Derivative financial instruments	1,593,851	–	1,593,851	(1,256,280)	(82,541)		255,030
Financial assets at fair value through other comprehensive income	27,912,770	–	27,912,770	(26,141,791)	–		1,770,979
Total	29,506,621	–	29,506,621	(27,398,071)	(82,541)		2,026,009
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset	Financial instruments (including non-cash collateral)	Cash collateral advanced	Net amount
As at 30 June 2021							
Financial liabilities							
Derivative financial instruments	1,459,567	–	1,459,567	(1,256,280)	(61,032)		142,255
Due to banks and other financial institutions	26,141,791	–	26,141,791	(26,141,791)	–		–
Total	27,601,358	–	27,601,358	(27,398,071)	(61,032)		142,255

Notes to the Unaudited Condensed Interim Financial Statements

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(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Offsetting financial assets and financial liabilities *(continued)*

	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset		
				Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
As at 31 December 2020						
Financial assets						
Derivative financial instruments	905,433	–	905,433	(725,558)	(118,302)	61,573
Financial assets at fair value through other comprehensive income	29,069,588	–	29,069,588	(26,921,033)	–	2,148,555
Total	29,975,021	–	29,975,021	(27,646,591)	(118,302)	2,210,128

	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset		
				Financial instruments (including non-cash collateral)	Cash collateral advanced	Net amount
As at 31 December 2020						
Financial liabilities						
Derivative financial instruments	2,783,985	–	2,783,985	(725,558)	(268,390)	1,790,037
Due to banks and other financial institutions	26,921,033	–	26,921,033	(26,921,033)	–	–
Total	29,705,018	–	29,705,018	(27,646,591)	(268,390)	1,790,037

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

4 NET INTEREST INCOME

	Six months ended 30 June	
	2021	2020
Interest income		
Due from banks and other financial institutions	69,201	265,365
Loans and advances to customers	1,246,162	1,058,280
Financial assets at fair value through other comprehensive income	1,542,232	1,497,688
	2,857,595	2,821,333
Interest expense		
Due to banks and other financial institutions	(109,623)	(290,487)
Due to customers	(1,008,724)	(1,455,313)
Debt securities and certificates of deposit issued	(2,972)	–
	(1,121,319)	(1,745,800)
Net interest income	1,736,276	1,075,533

5 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2021	2020
Settlement service	22,326	19,002
Interchange service	11,855	11,569
Credit facilities, guarantee and commitment	3,315	1,404
Agency service	495,459	344,787
Depository service	28,066	28,553
Others	3,974	2,905
	564,995	408,220

6 FEE AND COMMISSION EXPENSE

	Six months ended 30 June	
	2021	2020
Settlement and brokerage service	24,618	15,993
Interchange service	5,465	5,134
Others	3,654	5,865
	33,737	26,992

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7 DIVIDEND INCOME

	Six months ended 30 June	
	2021	2020
Financial assets at fair value through other comprehensive income – unlisted investment	35	35

8 NET GAINS ARISING FROM TRADING ACTIVITIES

	Six months ended 30 June	
	2021	2020
Foreign exchange	136,304	269,988
Interest rate instruments and others	(769)	53,546
Debt securities at fair value through profit or loss	8,843	19,596
Net losses of interest rate instruments and items under fair value hedge	(63,015)	(18,444)
Others	(110)	–
	81,253	324,686

Net gains on foreign exchange include gains or losses from the trading of spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into HK\$.

Net (losses)/gains on interest rate instruments and others include trading gains and losses and fair value changes of interest rate swaps, interest rate options and other derivatives.

9 OTHER OPERATING INCOME

	Six months ended 30 June	
	2021	2020
Management fee received from a branch of the ultimate holding company	906	1,656
Others	13,733	5,711
	14,639	7,367

Others mainly include income arising from miscellaneous banking services provided to the Bank's customers.

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

10 CHANGE IN EXPECTED CREDIT LOSSES ("ECL")

	Six months ended 30 June	
	2021	2020
Change in ECL allowance		
Loans and advances to customers (Note 3.1.3)	102,881	99,875
Financial investments	(96,890)	158,879
Cash and balances with central bank	(11)	1
Other receivables	(423)	1,045
Due from banks and other financial institutions	(7,675)	(1,996)
Financial guarantee and credit related commitment	(514)	8,208
	(2,632)	266,012

11 OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2021	2020
Staff costs		
– salaries and other allowances	282,464	214,951
– retirement benefit costs	18,639	18,705
General operational and administrative expenses	159,044	89,605
Depreciation and amortization	12,383	11,506
Depreciation of right-of-use assets	81,295	91,292
Auditor's remuneration	2,774	2,100
Buildings administration fee	5,526	4,534
Rental expenses	19,229	15,915
Repairs and maintenance	18,157	15,594
Printing, postage and telegram	27,063	23,279
Directors', senior management's and key personnel's emoluments	13,055	11,366
Management fee paid to a branch of the ultimate holding company	232,981	198,396
Finance costs – lease interest expense	1,548	2,496
Loss on disposal of property and equipment	7	–
Others	11,748	9,739
	885,913	709,478

12 INCOME TAX EXPENSES

	Six months ended 30 June	
	2021	2020
Current tax		
– Hong Kong profits tax	254,386	182,236
Deferred income tax	(12,652)	(15,852)
Income tax expenses	241,734	166,384

The current tax provision for the period ended 30 June 2021 and 2020 is based on the estimated assessable profit by using the Hong Kong profits tax rate of 16.5 per cent.

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For the six months ended 30 June 2021

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13 CASH AND BALANCES WITH CENTRAL BANK

	As at 30 June 2021	As at 31 December 2020
Cash	1,426,519	1,824,960
Balances with central bank	9,704,278	6,614,005
Less: ECL allowances	(4)	(15)
	11,130,793	8,438,950

14 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2021	As at 31 December 2020
Due from banks and other financial institutions	12,070,279	15,771,766
Placements with and loans to banks	8,288,872	4,331,101
Less: ECL allowances	(456)	(8,131)
	20,358,695	20,094,736

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2021	As at 31 December 2020
Derivative financial instruments (Note 16)	1,593,851	905,433
Debt securities at fair value through profit or loss		
– Unlisted	582,046	–
	2,175,897	905,433

Debt securities at fair value through profit or loss are analyzed by issuer as follows:

	As at 30 June 2021	As at 31 December 2020
Debt securities at fair value through profit or loss		
– Banks and other financial institutions	582,046	–
	582,046	–

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16 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilized by the Bank for trading or hedging purposes:

Currency forwards are contracts between two parties to buy or sell certain currencies at a specified future date at a predetermined price. The party agreeing to buy the underlying currency in the future assumes a long position, and the party agreeing to sell the currency in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option), on or before a set date or during a set period, a specific amount of a foreign currency at a predetermined price or to receive an interest payment based on a variable interest rate and pay a fixed interest rate or vice versa. The seller receives a premium from the purchaser in consideration for assuming foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Bank and a customer (over-the-counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognized in the statement of financial position but 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 Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

	For hedging			For trading			Total		
	Contractual/ notional amount	Fair values		Contractual/ notional amount	Fair values		Contractual/ notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities		Assets	Liabilities
As at 30 June 2021									
Foreign exchange contracts	–	–	–	235,806,113	437,867	(259,653)	235,806,113	437,867	(259,653)
Interest rate contracts and others	94,210,625	973,273	(1,041,319)	22,482,144	182,711	(158,595)	116,692,769	1,155,984	(1,199,914)
Total amount of derivative instruments recognized	94,210,625	973,273	(1,041,319)	258,288,257	620,578	(418,248)	352,498,882	1,593,851	(1,459,567)
As at 31 December 2020									
Foreign exchange contracts	–	–	–	256,886,730	705,726	(982,850)	256,886,730	705,726	(982,850)
Interest rate contracts and others	85,590,304	156,020	(1,768,972)	4,541,625	43,687	(32,163)	90,131,929	199,707	(1,801,135)
Total amount of derivative instruments recognized	85,590,304	156,020	(1,768,972)	261,428,355	749,413	(1,015,013)	347,018,659	905,433	(2,783,985)

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For the six months ended 30 June 2021

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16 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Bank's derivative financial instruments outstanding at period end. These instruments, comprising foreign exchange and interest rate derivatives allow the Bank and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The Bank undertakes its transactions in foreign exchange and interest rates contracts with other financial institutions and customers. Management has established limits for these contracts based on counterparty types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amounts of derivative financial instruments by original currency:

	As at 30 June 2021	As at 31 December 2020
Renminbi	11,592,099	17,892,359
United States Dollar	184,904,416	175,000,219
Hong Kong Dollar	152,015,904	143,601,025
Others	3,986,463	10,525,056
Total	352,498,882	347,018,659

Hedge accounting

The Bank applies hedge accounting on hedging its interest rate risk on certain fixed income investments, as follows:

Interest rate risk on fixed rate financial assets (fair value hedge)

The Bank holds a portfolio of fixed rate securities and therefore is exposed to changes in fair value due to movements in market rates. The Bank manages this risk exposure by entering into interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Bank. The interest rate risk component is determined as the change in fair value of the fixed rate securities arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value.

This strategy is designated as a fair value hedge. Its effectiveness is assessed by comparing changes in the fair value of the fixed rate securities attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

The Bank establishes the hedging ratio by matching the notional of the hedging instruments with the designated notional of the hedged item. Following reasons could cause ineffectiveness:

- 1) Differences in the day count convention of the hedged item and the hedging instrument;
- 2) The credit risk of the counterparty impacts the fair value of interest rate swaps, but has no impacts on hedged items.

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16 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedge accounting (continued)

Interest rate risk on fixed rate financial assets (fair value hedge) (continued)

a) The following table sets out the maturity profile and average interest rate of the hedging instruments used in the Bank's hedging strategies:

	Maturity					Total
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	
As at 30 June 2021						
Fair value hedge						
Interest rate						
Interest rate contract						
Notional	126,568	116,473	6,303,380	50,003,138	37,661,066	94,210,625
Average fixed interest rate	3.13%	1.88%	3.77%	3.26%	3.29%	3.29%

	Maturity					Total
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	
As at 31 December 2020						
Fair value hedge						
Interest rate						
Interest rate contract						
Notional	403,127	785,323	1,196,589	51,893,754	31,311,511	85,590,304
Average fixed interest rate	2.42%	3.5%	3.10%	3.37%	3.33%	3.35%

b) The following table contains details of the hedging instruments used in the Bank's hedging strategies:

	Notional	Carrying amount		Line item on statement of financial position	Fair value changes of the hedging instruments
		Assets	Liabilities		
As at 30 June 2021					
Fair value hedge					
Interest rate					
Interest rate contract	94,210,625	973,273	(1,041,319)	Financial assets/liabilities at fair value through profit or loss	1,528,241
As at 31 December 2020					
Fair value hedge					
Interest rate					
Interest rate contract	85,590,304	156,020	(1,768,972)	Financial assets/liabilities at fair value through profit or loss	(1,522,803)

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16 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedge accounting (continued)

Interest rate risk on fixed rate financial assets (fair value hedge) (continued)

c) The following table contains details of the hedged exposures covered by the Bank's hedging strategies:

As at 30 June 2021	Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged item	Line item on statement of financial position	Fair value changes of the hedged items	Ineffectiveness recognized in profit or loss
Fair value hedge					
Interest rate					
Debt investments	92,733,557	(130,251)	Financial assets at fair value through other comprehensive income	(1,552,748)	(62,752)
Loans and advances to customers	1,669,759	111,265	Loans and advances to customers	(38,508)	(263)
As at 31 December 2020					
Fair value hedge					
Interest rate					
Debt investments	85,629,923	1,421,159	Financial assets at fair value through other comprehensive income	1,340,771	(64,653)
Loans and advances to customers	1,708,267	149,773	Loans and advances to customers	118,339	960

The following table contains information regarding the effectiveness of the hedging relationships designated by the Bank, as well as the impacts on profit or loss and other comprehensive income:

For the six months ended 30 June 2021	Gains/(losses) recognized in other comprehensive Income	Hedge ineffectiveness recognized in profit and loss	Profit and loss line item that includes hedge ineffectiveness
Fair value hedge			
Interest rate	–	(63,015)	Net gains arising from trading activities
For the six months ended 30 June 2020			
Fair value hedge			
Interest rate	–	(18,444)	Net gains arising from trading activities

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For the six months ended 30 June 2021

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17 LOANS AND ADVANCES TO CUSTOMERS

17.1 Loans and advances to customers

	As at 30 June 2021	As at 31 December 2020
Loans and advances to customers	174,078,129	138,089,467
Less: ECL allowance	(675,049)	(574,797)
	173,403,080	137,514,670

17.2 Analysis of loans and advances to customers by staging

As at 30 June 2021	Stage 1 allowance	Stage 2 allowance	Stage 3 allowance	Total
Gross loans and advances (Note)	173,307,806	610,330	159,993	174,078,129
ECL allowance	(552,715)	(62,238)	(60,096)	(675,049)
Net loans and advances to customers	172,755,091	548,092	99,897	173,403,080

Note: Included in the stage 1 balance is a fair value change of hedging adjustment of HK\$111,265,000 which is not subject to ECL allowance.

As at 31 December 2020	Stage 1 allowance	Stage 2 allowance	Stage 3 allowance	Total
Gross loans and advances (Note)	135,580,432	2,403,153	105,882	138,089,467
ECL allowance	(381,199)	(149,365)	(44,233)	(574,797)
Net loans and advances to customers	135,199,233	2,253,788	61,649	137,514,670

Note: Included in the stage 1 balance is a fair value change of hedging adjustment of HK\$149,773,000 which is not subject to ECL allowance.

17.3 Credit quality of loans and advances to customers

Loans and advances to customers analyzed by security type

	As at 30 June 2021	As at 31 December 2020
Unsecured loans	44,402,672	36,512,184
Loan secured by guarantee	51,458,073	40,947,786
Collateralized and other secured loans	78,217,384	60,629,497
Gross amount of loans and advances to customers before ECL allowances	174,078,129	138,089,467

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For the six months ended 30 June 2021

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18 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 30 June 2021	As at 31 December 2020
Debt securities at fair value through other comprehensive income		
– Listed	94,700,287	93,603,225
– Unlisted	122,101,835	108,334,901
Equity securities at fair value through other comprehensive income		
– Unlisted	9,435	9,697
	216,811,557	201,947,823

The Bank has designated the investment in equity instruments issued by Joint Electronic Teller Services Limited at fair value through other comprehensive income. The Bank chose this presentation alternative because the investment was made for strategic purposes rather than with a view to profit on a subsequent sale, and there is no plan to dispose this investment in short or medium term.

The fair value of this investment is HK\$9,435,000 as at 30 June 2021 (31 December 2020: HK\$9,697,000) and a dividend of HK\$35,000 was recognized for the period ended 30 June 2021 (for the period ended 30 June 2020: HK\$35,000). There is no transfer of the cumulative gain/loss within equity.

Financial investments analyzed by issuer are as follows:

	As at 30 June 2021	As at 31 December 2020
Debt securities at fair value through other comprehensive income		
– Governments and central banks	26,184,680	27,382,080
– Banks and other financial institutions	124,838,939	120,568,300
– Corporate entities	65,778,503	53,987,746
Equity securities at fair value through other comprehensive income		
– Banks and other financial institutions	9,435	9,697
	216,811,557	201,947,823

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19 PROPERTY AND EQUIPMENT

	Equipment	Property improvement	Total
Cost			
As at 1 January 2021	73,436	54,703	128,139
Additions	3,672	4,175	7,847
Disposals	(37)	–	(37)
As at 30 June 2021	77,071	58,878	135,949
Accumulated depreciation			
As at 1 January 2021	(40,809)	(31,538)	(72,347)
Charge for the period	(5,053)	(4,879)	(9,932)
Disposals	30	–	30
As at 30 June 2021	(45,832)	(36,417)	(82,249)
Net book value			
As at 30 June 2021	31,239	22,461	53,700

	Equipment	Property improvement	Total
Cost			
As at 1 January 2020	60,400	44,260	104,660
Additions	13,036	10,443	23,479
As at 31 December 2020	73,436	54,703	128,139
Accumulated depreciation			
As at 1 January 2020	(29,847)	(21,337)	(51,184)
Charge for the year	(10,962)	(10,201)	(21,163)
As at 31 December 2020	(40,809)	(31,538)	(72,347)
Net book value			
As at 31 December 2020	32,627	23,165	55,792

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20 OTHER ASSETS

	As at 30 June 2021	As at 31 December 2020
Interest receivable	2,004,684	1,627,855
Settlement accounts	1,140,564	2,015,500
Other receivables, prepayments and others	126,338	77,398
Less: ECL allowances	(17,597)	(18,055)
Intangible assets (a)	17,776	19,320
	3,271,765	3,722,018

(a) Intangible assets

	Software
Cost	
As at 1 January 2021	24,016
Additions	907
As at 30 June 2021	24,923
Accumulated amortization	
As at 1 January 2021	(4,696)
Amortization expenses	(2,451)
As at 30 June 2021	(7,147)
Net book value as at 30 June 2021	17,776

	Software
Cost	
As at 1 January 2020	13,637
Additions	10,379
As at 31 December 2020	24,016
Accumulated amortization	
As at 1 January 2020	(1,439)
Amortization expenses	(3,257)
As at 31 December 2020	(4,696)
Net book value as at 31 December 2020	19,320

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21 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2021	As at 31 December 2020
Deposits from banks and other financial institutions	17,256,609	42,738,643
Subordinated loan from the ultimate holding company	2,000,000	2,000,000
Financial assets sold under repurchase agreements (Note 30)	26,141,791	26,921,033
Total	45,398,400	71,659,676

22 DUE TO CUSTOMERS

	As at 30 June 2021	As at 31 December 2020
Demand deposits and current accounts	14,957,836	11,312,443
Saving deposits	83,988,803	67,609,080
Time, call, notice and other deposits	224,441,821	166,828,386
	323,388,460	245,749,909
Including:		
Deposits pledged as collateral	3,466,468	3,113,674

23 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2021	As at 31 December 2020
Derivative financial instruments (Note 16)	1,459,567	2,783,985

For the six months ended 30 June 2021 and the year ended 31 December 2020, there were no significant changes in the fair value of the Bank's financial liabilities designated as at fair value through profit or loss that were attributable to the changes in credit risk.

24 CERTIFICATES OF DEPOSITS ISSUED

The certificates of deposits were measured at amortized cost.

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25 OTHER LIABILITIES

	As at 30 June 2021	As at 31 December 2020
Interest payable	431,880	440,341
Settlement accounts	1,745,859	1,908,546
Withholding tax	62,660	61,840
Provision for ECL allowances on financial guarantee and credit related commitment	23,456	23,970
Others	1,393,560	2,816,599
Total	3,657,415	5,251,296

26 SHARE CAPITAL

	Number of shares	Share capital
As at 31 December 2020, 1 January 2021 and 30 June 2021	37,900,000,000	37,900,000

On 21 September 2020, the Bank issued 20,000,000,000 ordinary shares to its ultimate holding company, Bank of Communications Co., Ltd.

27 ADDITIONAL EQUITY INSTRUMENT

	As at 30 June 2021	As at 31 December 2020
Undated non-cumulative subordinated Additional Tier 1 capital securities with US\$500 million	3,871,450	3,871,450

In March 2020, the Bank issued USD500 million undated non-cumulative subordinated Additional Tier 1 capital securities. The capital securities are perpetual securities and listed on the Stock Exchange of Hong Kong Limited in respect of which they may be redeemed at the Bank's option on 3 March 2025 and every six months thereafter or the occurrence of certain other events. They have an initial rate of distribution of 3.725% per annum payable semi-annually in arrear in year 1 to year 5 and resettable on year 5 and every 5 years thereafter at then prevailing 5-year U.S. Treasury yield plus 2.525% per annum. The Bank has paid dividend of HKD72,233,000 to the additional equity instrument holders for the period ended 30 June 2021 (30 June 2020:Nil).

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28 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Bank's financial guarantees and credit related commitments which the Bank has committed to its customers:

	As at 30 June 2021	As at 31 December 2020
Letters of guarantee	74,146	39,106
Letters of credit commitments	218,567	206,580
Acceptances bills	80,585	82,339
Credit card commitments	5,174,594	5,337,565
Other credit related commitments		
Under 1 year	8,413,500	6,161,693
More than 1 year	5,048,125	3,648,807
	19,009,517	15,476,090

Capital expenditure commitments

	As at 30 June 2021	As at 31 December 2020
Contracted but not provided for	9,304	13,583

Operating lease commitments

As at 30 June 2021, the Bank has non-cancellable operating lease commitments of HK\$12,668,000 (31 December 2020: Nil) related to short-term leases, which are the leases with a lease term of 12 months or less.

29 NOTES TO STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than or equal to 90 days used for the purpose of meeting short-term cash commitments:

	As at 30 June 2021	As at 31 December 2020
Cash and balances with central bank (Note 13)	11,130,793	8,438,950
Due from banks and other financial institutions	17,070,279	15,771,766
	28,201,072	24,210,716

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30 COLLATERALS

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties.

Sales and repurchase agreements are transactions in which the Bank sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Bank is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Bank does not have the ability to use during the term of the arrangements, are not derecognized from the financial statements but regarded as "collateral" for the secured lending from these because the Bank retains substantially all the risks and rewards of these securities. In addition, it recognizes a financial liability for cash received.

As at 30 June 2021 and 31 December 2020, the Bank entered into repurchase agreements with certain counterparties. The proceeds from selling such securities were presented as "financial assets sold under repurchase agreements" (see Note 21).

	Transferred assets		Associated liabilities	
	As at 30 June 2021	As at 31 December 2020	As at 30 June 2021	As at 31 December 2020
Investment securities	27,912,770	29,069,588	(26,141,791)	(26,921,033)

31 MATERIAL RELATED PARTY TRANSACTIONS

During the first half of 2021, the Bank has purchased certain loans and advances to customers of HK\$23,474,486,000 (30 June 2020: HK\$9,857,101,000) with a branch of ultimate holding company. Moreover, the Bank did not purchase (30 June 2020: HK\$1,767,303,000) and sell (30 June 2020: HK\$834,123,000) debt securities with a branch of ultimate holding company.

In addition to the above, all related party transactions that took place for the period ended 30 June 2021 were similar in nature to those disclosed in the 2020 Annual Report. There were no changes in the related party transactions described in the 2020 Annual Report that have had a material effect on the financial position or performance of the Bank for the period ended 30 June 2021.

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32 SEGMENTAL ANALYSIS

The Bank manages the business mainly from an operating segment perspective and the majority of the Bank's revenues, profits before tax and assets are derived from Hong Kong. The Bank is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Personal banking mainly comprises individual loans, individual deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The "Others" segment mainly comprises unallocated revenue and expenses and corporate expenses.

The business information of the Bank is summarized as follows:

	Six months ended 30 June 2021				
	Corporate Banking	Personal Banking	Treasury	Others	Total
External net interest income/(expense)	613,998	(326,433)	1,448,711	–	1,736,276
Inter-segment net interest income/(expense)	39,241	1,339,188	(1,378,429)	–	–
Net interest income	653,239	1,012,755	70,282	–	1,736,276
Other operating income	162,878	472,375	165,001	19	800,273
Total operating income	816,117	1,485,130	235,283	19	2,536,549
Change in expected credit losses	(86,870)	(14,094)	103,639	(43)	2,632
Other operating expense					
– Depreciation and amortization	(2,733)	(87,844)	(53)	(3,048)	(93,678)
– Others	(52,625)	(439,110)	(33,861)	(266,639)	(792,235)
Profit/(loss) before tax	673,889	944,082	305,008	(269,711)	1,653,268
Income tax expense	–	–	–	(241,734)	(241,734)
Net profit/(loss) for the period	673,889	944,082	305,008	(511,445)	1,411,534
As at 30 June 2021					
Segment assets	123,024,186	53,186,807	251,076,014	–	427,287,007
Unallocated assets	–	–	–	129,090	129,090
Total assets	123,024,186	53,186,807	251,076,014	129,090	427,416,097
Segment liabilities	(81,072,338)	(244,542,420)	(51,944,863)	–	(377,559,621)
Unallocated liabilities	–	–	–	(780,054)	(780,054)
Total liabilities	(81,072,338)	(244,542,420)	(51,944,863)	(780,054)	(378,339,675)

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2021

(All amounts expressed in thousands of HK\$ unless otherwise stated)

32 SEGMENTAL ANALYSIS (continued)

	Six months ended 30 June 2020				
	Corporate Banking	Personal Banking	Treasury	Others	Total
External net interest income/(expense)	312,898	(693,153)	1,455,788	–	1,075,533
Inter-segment net interest income/(expense)	(139,919)	1,498,586	(1,358,667)	–	–
Net interest income	172,979	805,433	97,121	–	1,075,533
Other operating income	10,339	394,495	448,646	125	853,605
Total operating income	183,318	1,199,928	545,767	125	1,929,138
Change in expected credit losses	12,247	(120,632)	(157,592)	(35)	(266,012)
Other operating expense					
– Depreciation and amortization	(2,110)	(97,999)	(53)	(2,636)	(102,798)
– Others	(30,159)	(341,573)	(34,487)	(200,461)	(606,680)
Profit/(loss) before tax	163,296	639,724	353,635	(203,007)	953,648
Income tax expense	–	–	–	(166,384)	(166,384)
Net profit/(loss) for the period	163,296	639,724	353,635	(369,391)	787,264
As at 30 June 2020					
Segment assets	50,709,643	41,058,043	193,720,777	–	285,488,463
Unallocated assets	–	–	–	287,393	287,393
Total assets	50,709,643	41,058,043	193,720,777	287,393	285,775,856
Segment liabilities	(22,231,111)	(189,949,131)	(47,849,247)	–	(260,029,489)
Unallocated liabilities	–	–	–	(591,323)	(591,323)
Total liabilities	(22,231,111)	(189,949,131)	(47,849,247)	(591,323)	(260,620,812)

33 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

On 8 July 2021, the Bank issued USD1,000 million subordinated Tier 2 capital bonds due 2031. They have an initial rate of distribution of 2.304% per annum payable semi-annually in arrear until Year 5 and reset in Year 5 to a fixed rate per annum equal to the aggregate of (a) the then-prevailing U.S. Treasury Rate and (b) the spread of 1.4% per annum.