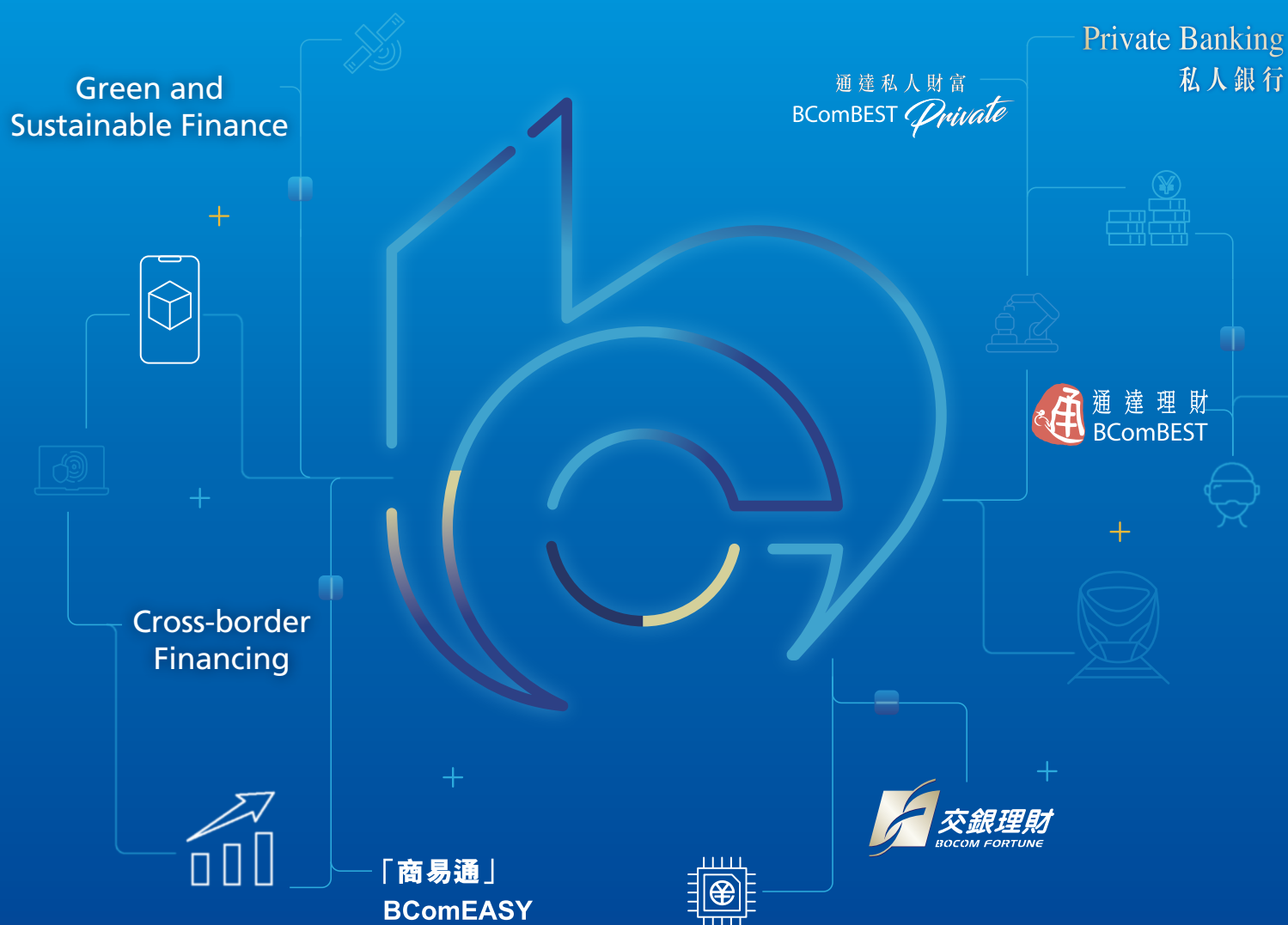


2022 INTERIM REPORT



CREATE SHARED VALUE
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Bank of Communications (Hong Kong) Limited

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Report on Review of Interim Financial 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 financial report set out on page 3 to 46 which comprises the unaudited interim statement of financial position of Bank of Communications (Hong Kong) Limited (the “Bank”) as of 30 June 2022 and the related unaudited interim statement of profit or loss and other comprehensive income and unaudited interim statement of changes in equity and unaudited condensed statement of cash flows for the six month period then ended and explanatory notes. The directors are responsible for the preparation and presentation of the interim financial 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 form a conclusion, based on our review, on the interim financial report 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 the interim financial report consists of making enquiries, 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 financial report as at 30 June 2022 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, “Interim financial reporting”.

KPMG

Certified Public Accountants

8th Floor, Prince’s Building

10 Chater Road

Central, Hong Kong

8 September 2022

Unaudited 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	
		2022	2021
	Notes		
Interest income calculated using effective interest method		3,922,407	2,857,595
Interest expense		(1,928,304)	(1,121,319)
Net interest income	4	1,994,103	1,736,276
Fee and commission income	5	533,945	564,995
Fee and commission expense	6	(33,971)	(33,737)
Net fee and commission income		499,974	531,258
Net gains arising from trading activities	8	273,795	81,253
Net gains arising from financial investments		87,390	173,088
Dividend income	7	35	35
Other operating income	9	13,358	14,639
Change in expected credit losses	10	(393,170)	2,632
Other operating expenses	11	(855,395)	(885,913)
Profit before tax		1,620,090	1,653,268
Income tax expenses	12	(257,163)	(241,734)
Net profit for the period		1,362,927	1,411,534
Other comprehensive income 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>		(70)	(262)
<i>Items that may be reclassified to profit or loss:</i>			
<i>Loans and advances to customers at fair value through other comprehensive income</i>			
<i>Net losses recorded in equity</i>		(11,279)	–
<i>Debt investments at fair value through other comprehensive income</i>			
<i>Net (losses)/gains recorded in equity</i>		(2,075,997)	764,768
<i>Net gains reclassified from equity to profit or loss</i>		(72,971)	(144,528)
Other comprehensive income for the period		(2,160,317)	619,978
Total comprehensive income for the period		(797,390)	2,031,512

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

Unaudited Interim Statement of Financial Position

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

		As at 30 June 2022	As at 31 December 2021
	Notes		
ASSETS			
Cash and balances with central bank	13	1,703,760	10,906,604
Due from and placements with banks and other financial institutions	14	23,880,776	10,959,316
Financial assets at fair value through profit or loss	15	11,527,345	3,635,487
Financial assets at amortized cost	18	47,016,356	16,697,248
Financial assets at fair value through other comprehensive income	18	188,884,253	222,979,531
Loans and advances to customers	17	208,671,825	188,413,081
Property and equipment	19	68,791	76,253
Deferred income tax assets		165,367	–
Right-of-use assets		180,467	215,163
Other assets	20	5,989,159	3,633,027
Total assets		488,088,099	457,515,710
LIABILITIES			
Due to banks and other financial institutions	21	69,687,775	51,898,784
Due to customers	22	352,437,146	331,727,134
Financial liabilities at fair value through profit or loss	23	2,507,112	1,614,593
Certificates of deposits issued	24	469,252	3,753,731
Current income tax liabilities		484,229	185,289
Deferred income tax liabilities		–	301,937
Lease liabilities		183,652	219,127
Debt securities issued	25	7,844,950	7,796,690
Other liabilities	26	4,783,806	9,458,087
Total liabilities		438,397,922	406,955,372
EQUITY			
Share capital	27	37,900,000	37,900,000
Additional equity instrument	28	3,871,450	3,871,450
Other reserves		19,877	2,180,194
Retained earnings		7,898,850	6,608,694
Total equity		49,690,177	50,560,338
Total equity and liabilities		488,088,099	457,515,710

The unaudited interim financial report was approved and authorized for issue by the Board of Directors on 8 September 2022 and signed on its behalf by:

Meng Yu, Executive Director

Zhu Bin, Executive Director

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

Unaudited Interim Statement of Changes in Equity

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

	Attributable to the shareholder of the Bank				Total
	Share capital	Additional equity instrument	Other reserves	Retained earnings (Note (a))	
At 1 January 2022	37,900,000	3,871,450	2,180,194	6,608,694	50,560,338
Net profit for the period	–	–	–	1,362,927	1,362,927
Other comprehensive income	–	–	(2,160,317)	–	(2,160,317)
	37,900,000	3,871,450	19,877	7,971,621	49,762,948
Dividends paid to additional equity instrument holders	–	–	–	(72,771)	(72,771)
At 30 June 2022	37,900,000	3,871,450	19,877	7,898,850	49,690,177
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

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 2022, HK\$916,863,000 (30 June 2021: HK\$1,009,091,000) was earmarked as the regulatory reserve from the retained earnings.

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

Unaudited Condensed Interim Statement of Cash Flows

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

		Six months ended 30 June	
		2022	2021
	Notes		
Net cash inflows from operating activities		84,377	16,751,793
Cash flows from investing activities:			
Purchase of financial investments		(67,773,416)	(62,283,643)
Disposal or redemption of financial investments		69,076,593	48,432,427
Dividend received		35	35
Interest received from financial investments		2,056,923	1,254,259
Purchase of intangible assets		(1,092)	(907)
Purchase of property and equipment		(6,256)	(7,847)
Net cash inflows/(outflows) from investing activities		3,352,787	(12,605,676)
Cash flows from financing activities:			
Principal elements of lease payments		(70,643)	(81,980)
Interest paid for lease		(903)	(1,548)
Dividend paid to additional equity instrument holders		(72,771)	(72,233)
Interest paid for debt securities issued		(89,620)	–
Net cash outflows from financing activities		(233,937)	(155,761)
Net increase in cash and cash equivalents		3,203,227	3,990,356
Cash and cash equivalents at the beginning of the period		20,348,021	24,210,716
Cash and cash equivalents at the end of the period	30	23,551,248	28,201,072

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

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

1 GENERAL

Bank of Communications (Hong Kong) Limited ("the Bank") is a licensed bank 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.

This unaudited interim financial report is presented in thousands of Hong Kong Dollars (HK\$), unless otherwise stated.

The financial information relating to the year ended 31 December 2021 that is included in the unaudited interim financial report for the six months ended 30 June 2022 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 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (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 interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting*. The financial reports 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 interim financial report.

These unaudited interim financial report of the Bank does not include all the notes of the types normally included in annual financial statements. Accordingly, these unaudited interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2021.

Except as described below, the Bank's accounting policies applied in preparing these unaudited interim financial report is consistent with those policies applied in preparing the financial statements for the year ended 31 December 2021.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

(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 2022 applied by the Bank

Annual Improvements to HKFRS Standards 2018 – 2020 Cycle

The Annual Improvements to HKFRSs 2018 – 2020 Cycle include a number of amendments to various HKFRSs:

- HKFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- HKFRS 16 Leases – amendment of its illustrative example to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- HKFRS 1 First time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same HKFRS 1 exemption.
- HKAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under HKAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The annual improvements did not have any material impact on the Bank's accounting policies and did not require retrospective adjustments.

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 2022 reporting periods and have not been early adopted by the Bank. These standards are not expected to have a material impact on the Bank 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 interim financial report 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 interim financial report, 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 2021, 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.

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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

(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)*

3.1.1.1 Measuring ECL – Explanation of inputs, assumptions and estimation techniques *(continued)*

- 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, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's 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., Development Strategy Team of the Bank 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 Interim Financial Report

For the six months ended 30 June 2022

(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 2022 and 30 June 2022, 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 condition 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 year of 2021 and it is expected that recovery would occur globally in the year of 2022.

The above development of COVID-19 pandemic and geopolitical environment changes in the first half of 2022 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 notable rebound of the global economy is observed in 2021, a moderate recovery is expected in 2022 as pandemic containment measures is loosened subsequently and global economic activities could be resumed accordingly. A mild growth is expected afterwards as relief measures are expected to cease gradually. GDP in most regions rebounded in 2021 and is expected to further recover in 2022. However, the level of recovery is highly uneven in the global economy. China's GDP will expand moderately while a mild growth is forecasted in Hong Kong. The unemployment rate is expected to drop slightly in 2022 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 Interim Financial Report

For the six months ended 30 June 2022

(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 2022	As at 31 December 2021
Probability-weighted ECL	1,565,558	1,175,625
Base ECL	1,546,801	1,171,600
Difference in amount	18,757	4,025
Difference in percentage	1.2%	0.3%

Management judgmental adjustment

A moderate recovery of global economy is expected in 2022 as pandemic containment measures is loosened subsequently and global economic activities could be resumed accordingly. However, 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. 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 judgmental adjustment has been established and made for the period ended 30 June 2022.

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

Management judgmental adjustment made in estimating the reported ECL at 30 June 2022 are set out in the following table. The table includes an adjustment in relation to data and model limitations resulting from the COVID-19 pandemic. It shows the adjustment applicable to the probability-weighted ECL.

	As at 30 June 2022
SME lending adjustments	195,328
Probability-weighted ECL	1,565,558
Percentage of adjustments	12.5%

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 judgmental adjustment at an appropriate time.

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:

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

(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 *(Continued)*

As at 30 June 2022:

	Gross exposure	ECL allowance	Carrying amount	Fair value of collateral held
Loans to individuals	48,159	(24,939)	23,220	21,725
Loans to corporate entities	447,794	(248,519)	199,275	48,633
	495,953	(273,458)	222,495	70,358

As at 31 December 2021:

	Gross exposure	ECL allowance	Carrying amount	Fair value of collateral held
Loans to individuals	72,815	(23,584)	49,231	47,915
Loans to corporate entities	129,154	(53,131)	76,023	31,894
	201,969	(76,715)	125,254	79,809

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

(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 – Loans and advances to customers at amortized cost

Corporate Loan	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	125,252,567	8,362,962	129,154	133,744,683
Transfers:				
Transfer from Stage 1 to Stage 2	(5,977,254)	5,977,254	–	–
Transfer from Stage 1 to Stage 3	(229,084)	–	229,084	–
Transfer from Stage 2 to Stage 1	133,640	(133,640)	–	–
Transfer from Stage 2 to Stage 3	–	(82,352)	82,352	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending (Note 1)	13,425,029	2,030,198	7,054	15,462,281
Foreign exchange and other movements	(35,182)	16,224	150	(18,808)
Gross carrying amount as at 30 June 2022 (Note 2)	132,569,716	16,170,646	447,794	149,188,156

Note 1: 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.

Note 2: Stage 1 balance included a fair value loss of hedging adjustment of HK\$45,329,000 which is not subject to ECL allowance (note 16 (c)).

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	(5,581,666)	5,581,666	–	–
Transfer from Stage 1 to Stage 3	(31,553)	–	31,553	–
Transfer from Stage 2 to Stage 1	139,293	(139,293)	–	–
Transfer from Stage 2 to Stage 3	–	(26,384)	26,384	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending (Note 1)	38,255,615	1,167,979	13,190	39,436,784
Write-offs	–	–	(81)	(81)
Foreign exchange and other movements	162,308	–	37	162,345
Gross carrying amount as at 31 December 2021 (Note 2)	125,252,567	8,362,962	129,154	133,744,683

Note 1: 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.

Note 2: Stage 1 balance included a fair value gain of hedging adjustment of HK\$69,700,000 which is not subject to ECL allowance (note 16 (c)).

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

(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 at amortized cost

	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 2022	614,132	78,712	53,131	745,975
Transfers:				
Transfer from Stage 1 to Stage 2	(23,627)	23,627	–	–
Transfer from Stage 1 to Stage 3	(1,979)	–	1,979	–
Transfer from Stage 2 to Stage 1	15,947	(15,947)	–	–
Transfer from Stage 2 to Stage 3	–	(4,263)	4,263	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	64,720	7,924	5,208	77,852
Changes in PDs/LGDs/EADs	(100,778)	179,668	183,255	262,145
Unwind of discount	2,502	760	588	3,850
Foreign exchange and other movements	25	70	95	190
ECL allowance amount as at 30 June 2022	570,942	270,551	248,519	1,090,012
	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	(12,539)	12,539	–	–
Transfer from Stage 1 to Stage 3	(145)	–	145	–
Transfer from Stage 2 to Stage 1	18,182	(18,182)	–	–
Transfer from Stage 2 to Stage 3	–	(1,150)	1,150	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	279,530	(1,420)	16,558	294,668
Changes in PDs/LGDs/EADs	31,483	4,728	9,907	46,118
Unwind of discount	–	1,259	–	1,259
Write-offs	–	–	(81)	(81)
Foreign exchange and other movements	390	–	34	424
ECL allowance amount as at 31 December 2021	614,132	78,712	53,131	745,975

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For the six months ended 30 June 2022

(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 – Loans and advances to customers at amortized cost

Retail Loan	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	52,457,668	159,961	72,815	52,690,444
Transfers:				
Transfer from Stage 1 to Stage 2	(301,542)	301,542	–	–
Transfer from Stage 1 to Stage 3	(4,458)	–	4,458	–
Transfer from Stage 2 to Stage 1	91,366	(91,366)	–	–
Transfer from Stage 2 to Stage 3	–	(6,320)	6,320	–
Transfer from Stage 3 to Stage 1	7	–	(7)	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending (Note)	6,532,128	21,522	(32,262)	6,521,388
Write-offs	–	–	(3,178)	(3,178)
Foreign exchange and other movements	5,354	63	13	5,430
Gross carrying amount as at 30 June 2022	58,780,523	385,402	48,159	59,214,084

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 2021	43,122,089	624,159	47,811	43,794,059
Transfers:				
Transfer from Stage 1 to Stage 2	(112,266)	112,266	–	–
Transfer from Stage 1 to Stage 3	(45,655)	–	45,655	–
Transfer from Stage 2 to Stage 1	509,552	(509,552)	–	–
Transfer from Stage 2 to Stage 3	–	(9,741)	9,741	–
Transfer from Stage 3 to Stage 1	8,227	–	(8,227)	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending (Note)	8,971,804	(57,362)	(16,805)	8,897,637
Write-offs	–	–	(5,360)	(5,360)
Foreign exchange and other movements	3,917	191	–	4,108
Gross carrying amount as at 31 December 2021	52,457,668	159,961	72,815	52,690,444

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 2022

(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 at amortized cost

	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 2022	85,088	30,376	23,584	139,048
Transfers:				
Transfer from Stage 1 to Stage 2	(472)	472	–	–
Transfer from Stage 1 to Stage 3	(17)	–	17	–
Transfer from Stage 2 to Stage 1	18,890	(18,890)	–	–
Transfer from Stage 2 to Stage 3	–	(1,457)	1,457	–
Transfer from Stage 3 to Stage 1	1	–	(1)	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	18,758	7,055	(127)	25,686
Changes in PDs/LGDs/EADs	12,012	30,445	2,898	45,355
Unwind of discount	345	247	191	783
Recoveries of loans written-off in previous years	–	–	100	100
Write-offs	–	–	(3,178)	(3,178)
Foreign exchange and other movements	12	28	(2)	38
ECL allowance amount as at 30 June 2022	134,617	48,276	24,939	207,832

	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	(456)	456	–	–
Transfer from Stage 1 to Stage 3	(129)	–	129	–
Transfer from Stage 2 to Stage 1	50,071	(50,071)	–	–
Transfer from Stage 2 to Stage 3	–	(2,757)	2,757	–
Transfer from Stage 3 to Stage 1	76	–	(76)	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	16,449	(5,211)	(1,165)	10,073
Changes in PDs/LGDs/EADs	(64,903)	18,520	8,251	(38,132)
Unwind of discount	–	988	–	988
Recoveries of loans written-off in previous years	–	–	233	233
Write-offs	–	–	(5,360)	(5,360)
Foreign exchange and other movements	12	24	–	36
ECL allowance amount as at 31 December 2021	85,088	30,376	23,584	139,048

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For the six months ended 30 June 2022

(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 at amortized cost (Continued)

	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 2022	699,220	109,088	76,715	885,023
Transfers:				
Transfer from Stage 1 to Stage 2	(24,099)	24,099	–	–
Transfer from Stage 1 to Stage 3	(1,996)	–	1,996	–
Transfer from Stage 2 to Stage 1	34,837	(34,837)	–	–
Transfer from Stage 2 to Stage 3	–	(5,720)	5,720	–
Transfer from Stage 3 to Stage 1	1	–	(1)	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	83,478	14,979	5,081	103,538
Changes in PDs/LGDs/EADs	(88,766)	210,113	186,153	307,500
Unwind of discount	2,847	1,007	779	4,633
Recoveries of loans written-off in previous years	–	–	100	100
Write-offs	–	–	(3,178)	(3,178)
Foreign Exchange and other movements	37	98	93	228
ECL allowance amount as at 30 June 2022	705,559	318,827	273,458	1,297,844

	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	(12,995)	12,995	–	–
Transfer from Stage 1 to Stage 3	(274)	–	274	–
Transfer from Stage 2 to Stage 1	68,253	(68,253)	–	–
Transfer from Stage 2 to Stage 3	–	(3,907)	3,907	–
Transfer from Stage 3 to Stage 1	76	–	(76)	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	295,979	(6,631)	15,393	304,741
Changes in PDs/LGDs/EADs	(33,420)	23,248	18,158	7,986
Unwind of discount	–	2,247	–	2,247
Recoveries of loans written-off in previous years	–	–	233	233
Write-offs	–	–	(5,441)	(5,441)
Foreign Exchange and other movements	402	24	34	460
ECL allowance amount as at 31 December 2021	699,220	109,088	76,715	885,023

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For the six months ended 30 June 2022

(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 – Loans and advances to customers at fair value through other comprehensive income

Loans and advances to customers at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	2,862,977	–	–	2,862,977
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	(1,295,548)	–	–	(1,295,548)
Gross carrying amount as at 30 June 2022	1,567,429	–	–	1,567,429

Loans and advances to customers at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	–	–	–	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	2,862,977	–	–	2,862,977
Gross carrying amount as at 31 December 2021	2,862,977	–	–	2,862,977

Movement of ECL allowance – Loans and advances to customers at fair value through other comprehensive income

Loans and advances to customers 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 2022	839	–	–	839
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	(273)	–	–	(273)
Changes in PDs/LGDs/EADs	(334)	–	–	(334)
ECL allowance amount as at 30 June 2022	232	–	–	232

Loans and advances to customers 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	–	–	–	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	839	–	–	839
ECL allowance amount as at 31 December 2021	839	–	–	839

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For the six months ended 30 June 2022

(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 2022	222,722,671	247,991	–	222,970,662
Transfers:				
Transfer from Stage 1 to Stage 2	(1,000,192)	1,000,192	–	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending (Note)	(32,834,369)	(166,821)	–	(33,001,190)
Foreign exchange and other movements	(1,095,491)	1,473	–	(1,094,018)
Gross carrying amount as at 30 June 2022	187,792,619	1,082,835	–	188,875,454

Note: The balances include the debt securities at fair value through other comprehensive income originated or purchased in the period and subsequently transferred between stage 1, stage 2 and stage 3 during the period.

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 remeasurement, derecognized, repayments and further lending (Note)	20,671,717	247,991	–	20,919,708
Foreign exchange and other movements	112,828	–	–	112,828
Gross carrying amount as at 31 December 2021	222,722,671	247,991	–	222,970,662

Note: The balances include the debt securities at fair value through other comprehensive income 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 2022

(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 – 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
ECL allowance amount as at 1 January 2022	233,854	3,056	–	236,910
Transfers:				
Transfer from Stage 1 to Stage 2	(1,873)	1,873	–	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	(372)	76	–	(296)
Changes in PDs/LGDs/EADs	(44,813)	8,912	–	(35,901)
Foreign Exchange and other movements	312	18	–	330
ECL allowance amount as at 30 June 2022	187,108	13,935	–	201,043

Debt securities at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
ECL allowance amount as at 1 January 2021	318,962	–	–	318,962
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	45,588	3,056	–	48,644
Changes in PDs/LGDs/EADs	(131,718)	–	–	(131,718)
Foreign Exchange and other movements	1,022	–	–	1,022
ECL allowance amount as at 31 December 2021	233,854	3,056	–	236,910

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For the six months ended 30 June 2022

(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 amortized cost

Debt securities at amortized cost	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	16,710,918	–	–	16,710,918
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending (Note)	30,823,596	56,406	–	30,880,002
Foreign Exchange and other movements	(121,707)	–	–	(121,707)
Gross carrying amount as at 30 June 2022	47,412,807	56,406	–	47,469,213

Note: The balances include the debt securities at fair value through other comprehensive income originated or purchased in the period and subsequently transferred between stage 1, stage 2 and stage 3 during the period.

Debt securities at amortized cost	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	–	–	–	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	16,710,918	–	–	16,710,918
Gross carrying amount as at 31 December 2021	16,710,918	–	–	16,710,918

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

(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 – Debt securities at amortized cost

	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Debt securities at amortized cost				
ECL allowance amount as at 1 January 2022	10,790	–	–	10,790
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	12,820	91	–	12,911
Changes in PDs/LGDs/EADs	(1,800)	–	–	(1,800)
Foreign exchange and other movements	(144)	–	–	(144)
ECL allowance amount as at 30 June 2022	21,666	91	–	21,757

	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Debt securities at amortized cost				
ECL allowance amount as at 1 January 2021	–	–	–	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	10,790	–	–	10,790
ECL allowance amount as at 31 December 2021	10,790	–	–	10,790

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For the six months ended 30 June 2022

(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 Interim Financial Report

For the six months ended 30 June 2022

(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 2022				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	235	–	–	235
– Banks and other financial institutions	235,969	–	–	235,969
– Corporate entities	218,267	–	–	218,267
Derivative financial instruments				
– Foreign exchange contracts	–	1,112,908	–	1,112,908
– Interest rate contracts and others	–	9,959,966	–	9,959,966
	454,471	11,072,874	–	11,527,345
As at 30 June 2022				
Financial assets at fair value through other comprehensive income				
Debt securities				
– Governments and central banks	24,234,917	2,740,907	–	26,975,824
– Banks and other financial institutions	79,690,439	13,160,497	–	92,850,936
– Corporate entities	68,001,824	1,046,870	–	69,048,694
Equity securities				
– Banks and other financial institutions	–	–	8,799	8,799
Loans and advances to customers	–	1,567,430	–	1,567,430
	171,927,180	18,515,704	8,799	190,451,683
Total financial assets measured at fair value	172,381,651	29,588,578	8,799	201,979,028
As at 30 June 2022				
Financial liabilities at fair value through profit or loss				
Certificates of deposits issued	–	469,252	–	469,252
Derivative financial instruments				
– Foreign exchange contracts	–	1,403,725	–	1,403,725
– Interest rate contracts and others	–	1,103,387	–	1,103,387
Total financial liabilities measured at fair value	–	2,976,364	–	2,976,364

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For the six months ended 30 June 2022

(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 2021				
Financial assets at fair value through profit or loss				
Debt securities				
– Banks and other financial institutions	810,224	–	–	810,224
– Corporate entities	233,354	–	–	233,354
Derivative financial instruments				
– Foreign exchange contracts	–	529,125	–	529,125
– Interest rate contracts and others	–	2,062,784	–	2,062,784
	1,043,578	2,591,909	–	3,635,487
As at 31 December 2021				
Financial assets at fair value through other comprehensive income				
Debt securities				
– Governments and central banks	29,988,960	7,402,972	–	37,391,932
– Banks and other financial institutions	98,114,693	15,147,322	–	113,262,015
– Corporate entities	70,924,073	1,392,642	–	72,316,715
Equity securities				
– Banks and other financial institutions	–	–	8,869	8,869
Loans and advances to customers	–	2,862,977	–	2,862,977
	199,027,726	26,805,913	8,869	225,842,508
Total financial assets measured at fair value	200,071,304	29,397,822	8,869	229,477,995
As at 31 December 2021				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
– Foreign exchange contracts	–	935,359	–	935,359
– Interest rate contracts and others	–	679,234	–	679,234
Total financial liabilities measured at fair value	–	1,614,593	–	1,614,593

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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 2022 and 31 December 2021. 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 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 30 June 2022						
Financial assets						
Derivative financial instruments	11,072,874	–	11,072,874	(523,968)	(625,256)	9,923,650
Financial assets at fair value through other comprehensive income	28,501,069	–	28,501,069	(27,300,232)	–	1,200,837
Other assets	2,747,941	(342,393)	2,405,548	–	–	2,405,548
Total	42,321,884	(342,393)	41,979,491	(27,824,200)	(625,256)	13,530,035
	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
Financial liabilities						
Derivative financial instruments	2,507,112	–	2,507,112	(523,968)	(1,032,185)	950,959
Due to banks and other financial institutions	27,300,232	–	27,300,232	(27,300,232)	–	–
Other liabilities	1,816,160	(342,393)	1,473,767	–	–	1,473,767
Total	31,623,504	(342,393)	31,281,111	(27,824,200)	(1,032,185)	2,424,726

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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	Gross amounts of recognized financial assets presented in the statement of financial position	Net amounts of financial assets	Related amounts not offset	Net amount
					Financial instruments (including non-cash collateral)	Cash collateral received
As at 31 December 2021						
Financial assets						
Derivative financial instruments	2,591,909	–	2,591,909	(1,099,876)	(77,811)	1,414,222
Financial assets at fair value through other comprehensive income	31,003,531	–	31,003,531	(28,772,576)	–	2,230,955
Other assets	1,156,555	(20,948)	1,135,607	–	–	1,135,607
Total	34,751,995	(20,948)	34,731,047	(29,872,452)	(77,811)	4,780,784
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Gross amounts of recognized financial liabilities presented in the statement of financial position	Net amounts of financial liabilities	Related amounts not offset	Net amount
					Financial instruments (including non-cash collateral)	Cash collateral advanced
Financial liabilities						
Derivative financial instruments	1,614,593	–	1,614,593	(1,099,876)	(365,275)	149,442
Due to banks and other financial institutions	28,772,576	–	28,772,576	(28,772,576)	–	–
Other liabilities	6,123,782	(20,948)	6,102,834	–	–	6,102,834
Total	36,510,951	(20,948)	36,490,003	(29,872,452)	(365,275)	6,252,276

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For the six months ended 30 June 2022

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

4 NET INTEREST INCOME

	Six months ended 30 June	
	2022	2021
Interest income		
Due from and placements with banks and other financial institutions	132,389	69,201
Loans and advances to customers	1,701,197	1,246,162
Financial assets at amortized cost	218,025	–
Financial assets at fair value through other comprehensive income	1,870,796	1,542,232
	3,922,407	2,857,595
Interest expense		
Due to banks and other financial institutions	(346,461)	(109,623)
Due to customers	(1,486,633)	(1,008,724)
Debt securities and certificates of deposit issued carried at amortized cost	(95,210)	(2,972)
	(1,928,304)	(1,121,319)
Net interest income	1,994,103	1,736,276

5 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2022	2021
Settlement service	22,982	22,326
Interchange service	9,533	11,855
Credit facilities, guarantee and commitment	7,411	3,315
Agency service	462,757	495,459
Depository service	27,895	28,066
Others	3,367	3,974
	533,945	564,995

6 FEE AND COMMISSION EXPENSE

	Six months ended 30 June	
	2022	2021
Settlement and brokerage service	25,030	24,618
Interchange service	5,025	5,465
Others	3,916	3,654
	33,971	33,737

7 DIVIDEND INCOME

	Six months ended 30 June	
	2022	2021
Financial assets at fair value through other comprehensive income		
– unlisted investment	35	35

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8 NET GAINS ARISING FROM TRADING ACTIVITIES

	Six months ended 30 June	
	2022	2021
Foreign exchange	430,340	136,304
Interest rate instruments and others	(185,881)	(769)
Debt securities at fair value through profit or loss	(38,848)	8,843
Net gains/(losses) of interest rate instruments and items under fair value hedge	68,061	(63,015)
Others	123	(110)
	273,795	81,253

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 gains/(losses) 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	
	2022	2021
Management fee received from a branch of the ultimate holding company	1,149	906
Others	12,209	13,733
	13,358	14,639

10 CHANGE IN EXPECTED CREDIT LOSSES

	Six months ended 30 June	
	2022	2021
Change in ECL allowance		
Loans and advances to customers	415,292	102,881
Financial investments at amortized cost	10,967	33,871
Financial investments at fair value through other comprehensive income	(35,867)	(130,761)
Cash and balances with central bank	(46)	(11)
Other receivables	4,638	(423)
Due from and placements with banks and other financial institutions	994	(7,675)
Financial guarantee and credit related commitment	(2,808)	(514)
	393,170	(2,632)

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11 OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2022	2021
Staff costs		
– salaries and other allowances	294,383	282,464
– retirement benefit costs	21,720	18,639
General operational and administrative expenses	107,419	159,044
Depreciation and amortization	17,000	12,383
Depreciation of right-of-use assets	69,864	81,295
Auditor's remuneration	2,774	2,774
Buildings administration fee	5,426	5,526
Rental expenses	26,324	19,229
Repairs and maintenance	15,804	18,157
Printing, postage and telegram	19,784	27,063
Directors', senior management's and key personnel's emoluments	11,183	13,055
Management fee paid to a branch of the ultimate holding company	251,759	232,981
Finance costs – lease interest expense	903	1,548
Loss on disposal of property and equipment	224	7
Others	10,828	11,748
	855,395	885,913

12 INCOME TAX EXPENSES

	Six months ended 30 June	
	2022	2021
Current tax		
– Hong Kong profits tax	298,940	254,386
Deferred income tax	(41,777)	(12,652)
Income tax expenses	257,163	241,734

The current tax provision for the period ended 30 June 2022 and 2021 is based on the estimated assessable profit by using the Hong Kong profits tax rate of 16.5 per cent.

13 CASH AND BALANCES WITH CENTRAL BANK

	As at 30 June 2022	As at 31 December 2021
Cash	479,962	1,104,512
Balances with central bank	1,223,800	9,802,140
Less: ECL allowance	(2)	(48)
	1,703,760	10,906,604

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14 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2022	As at 31 December 2021
Due from and placements with banks and other financial institutions	9,995,044	7,310,594
Placements with and loans to banks	13,887,017	3,649,013
Less: ECL allowances	(1,285)	(291)
	23,880,776	10,959,316

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2022	As at 31 December 2021
Derivative financial instruments (Note 16)	11,072,874	2,591,909
Debt securities at fair value through profit or loss		
– Unlisted	454,471	1,043,578
	11,527,345	3,635,487

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

	As at 30 June 2022	As at 31 December 2021
Debt securities at fair value through profit or loss		
– Governments and central banks	235	–
– Banks and other financial institutions	235,969	810,224
– Corporate entities	218,267	233,354
	454,471	1,043,578

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).

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16 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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 2022									
Foreign exchange contracts	-	-	-	341,164,773	1,112,908	(1,403,725)	341,164,773	1,112,908	(1,403,725)
Interest rate contracts and others	115,315,967	8,935,804	(20,483)	89,820,477	1,024,162	(1,082,904)	205,136,444	9,959,966	(1,103,387)
Total amount of derivative instruments recognized	115,315,967	8,935,804	(20,483)	430,985,250	2,137,070	(2,486,629)	546,301,217	11,072,874	(2,507,112)
As at 31 December 2021									
Foreign exchange contracts	-	-	-	286,693,645	529,125	(935,359)	286,693,645	529,125	(935,359)
Interest rate contracts and others	106,568,813	1,775,468	(477,410)	32,765,008	287,316	(201,824)	139,333,821	2,062,784	(679,234)
Total amount of derivative instruments recognized	106,568,813	1,775,468	(477,410)	319,458,653	816,441	(1,137,183)	426,027,466	2,591,909	(1,614,593)

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.

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16 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Notional amounts of derivative financial instruments by original currency:

	As at 30 June 2022	As at 31 December 2021
Renminbi	68,754,453	43,751,783
United States Dollar	269,039,112	240,300,398
Hong Kong Dollar	202,849,288	138,214,909
Others	5,658,364	3,760,376
Total	546,301,217	426,027,466

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)

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 2022						
Fair value hedge						
Interest rate						
Interest rate contract						
Notional	240,055	1,116,336	7,757,691	57,344,266	48,857,619	115,315,967
Average fixed interest rate	2.98%	3.06%	3.46%	3.24%	3.29%	3.27%
	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 2021						
Fair value hedge						
Interest rate						
Interest rate contract						
Notional	272,884	2,474,280	6,541,750	52,654,792	44,625,107	106,568,813
Average fixed interest rate	4.31%	3.56%	3.43%	3.26%	3.33%	3.31%

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 2022					
Fair value hedge					
Interest rate					
Interest rate contract	115,315,967	8,935,804	(20,483)	Financial assets/liabilities at fair value through profit or loss	7,664,608
	Notional	Carrying amount		Line item on statement of financial position	Fair value changes of the hedging instruments
		Assets	Liabilities		
As at 31 December 2021					
Fair value hedge					
Interest rate					
Interest rate contract	106,568,813	1,775,468	(477,410)	Financial assets/liabilities at fair value through profit or loss	2,931,467

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16 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Hedge accounting (continued)

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

As at 30 June 2022	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	97,404,253	(8,552,794)	Financial assets at fair value through other comprehensive income	(7,054,030)	70,057
Debt investments	7,636,842	(431,100)	Financial assets at amortized cost	(427,488)	(1,332)
Loans and advances to customers	1,513,164	(45,329)	Loans and advances to customers	(115,029)	(664)
As at 31 December 2021					
Fair value hedge					
Interest rate					
Debt investments	101,548,603	(1,474,407)	Financial assets at fair value through other comprehensive income	(2,895,184)	(44,249)
Debt investments	2,232,932	(2,880)	Financial assets at amortized cost	(2,880)	(2,232)
Loans and advances to customers	1,628,194	69,700	Loans and advances to customers	(80,073)	(189)

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 2022	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	–	68,061	Net gains arising from trading activities
For the six months ended 30 June 2021			
Fair value hedge			
Interest rate	–	(63,015)	Net gains arising from trading activities

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16 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Exposures to interbank offered rates

The Bank has fair value hedge accounting relationships maturing beyond the anticipated cessation date for IBORs. Significant judgement will be required in determining when uncertainty is expected to be resolved and when targeted relief will cease to apply. As at 30 June 2022, 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 apply to the Bank's hedge accounting relationships that reference benchmarks subject to reform or replacement.

As at 30 June 2022, the details of derivative instruments designated in fair value hedge accounting relationships linked to IBORs, excluding the derivative instruments that will expire the transition date, are as follows:

	Notional amount	
	As at 30 June 2022	As at 31 December 2021
Fair value hedge		
Interest rate contract		
USD London Interbank Offered Rate	96,571,107	102,503,091

The following table shows outstanding amounts of financial instruments referencing the interest rate benchmarks that have yet to transit alternative benchmark rates as at 30 June 2022, excluding the financial instruments that will expire before the transition date. The amounts of financial assets and liabilities are shown at gross carrying amounts, and derivatives are shown at notional amounts.

	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			
As at 30 June 2022	41,004,196	295,598	111,665,908
As at 31 December 2021	40,911,291	192,569	109,990,957
EUR London Interbank Offered Rate with different tenors			
As at 30 June 2022	–	–	–
As at 31 December 2021	37,420	–	–

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

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17 LOANS AND ADVANCES TO CUSTOMERS

17.1 Loans and advances to customers

	As at 30 June 2022	As at 31 December 2021
Loans and advances to customers at amortized cost		
Loans and advances to customers	208,402,240	186,435,127
Less: ECL allowance	(1,297,844)	(885,023)
	207,104,396	185,550,104
Loans and advances to customers at fair value through other comprehensive income		
Loans and advances to customers	1,567,429	2,862,977
	208,671,825	188,413,081

17.2 Analysis of loans and advances to customers by staging

As at 30 June 2022	Stage 1 allowance	Stage 2 allowance	Stage 3 allowance	Total
Loans and advances to customers				
– Carried at amortized cost (Note)	191,350,238	16,556,049	495,953	208,402,240
Less: ECL allowance	(705,559)	(318,827)	(273,458)	(1,297,844)
– Carried at fair value through other comprehensive income	1,567,429	–	–	1,567,429
Net loans and advances to customers	192,212,108	16,237,222	222,495	208,671,825

Note: Stage 1 balance included a fair value loss of hedging adjustment of HK\$45,329,000 which is not subject to ECL allowance (note 16 (c)).

As at 31 December 2021	Stage 1 allowance	Stage 2 allowance	Stage 3 allowance	Total
Loans and advances to customers				
– Carried at amortized cost (Note)	177,710,235	8,522,923	201,969	186,435,127
Less: ECL allowance	(699,220)	(109,088)	(76,715)	(885,023)
– Carried at fair value through other comprehensive income	2,862,977	–	–	2,862,977
Net loans and advances to customers	179,873,992	8,413,835	125,254	188,413,081

Note: Stage 1 balance included a fair value gain of hedging adjustment of HK\$69,700,000 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 2022	As at 31 December 2021
Unsecured loans	45,289,084	42,095,342
Loan secured by guarantee	66,376,403	61,088,084
Collateralized and other secured loans	98,304,182	86,114,678
Gross amount of loans and advances to customers before ECL allowances	209,969,669	189,298,104

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18 FINANCIAL INVESTMENTS

	As at 30 June 2022	As at 31 December 2021
Financial assets at amortized cost		
Debt securities at amortized cost (Note)		
– Listed	8,168,054	5,340,882
– Unlisted	38,870,059	11,367,156
Less: ECL allowance	(21,757)	(10,790)
	47,016,356	16,697,248
Financial assets at fair value through other comprehensive income		
Debt securities at fair value through other comprehensive income		
– Listed	81,960,780	92,088,821
– Unlisted	106,914,674	130,881,841
Equity securities at fair value through other comprehensive income		
– Unlisted	8,799	8,869
	188,884,253	222,979,531
	235,900,609	239,676,779

The Bank has designated certain investment in equity instruments at fair value through other comprehensive income. The Bank chose this presentation alternative because these investments were made as a pre-requisite for the provision of the bank's certain normal banking business 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.

Financial investments analyzed by issuer are as follows:

	As at 30 June 2022	As at 31 December 2021
Financial assets at amortized cost		
Debt securities at amortized cost		
– Governments and central banks	28,384,648	6,290,674
– Banks and other financial institutions	15,605,489	9,418,072
– Corporate entities	3,026,219	988,502
	47,016,356	16,697,248
Financial assets at fair value through other comprehensive income		
Debt securities at fair value through other comprehensive income		
– Governments and central banks	26,975,824	37,391,932
– Banks and other financial institutions	92,850,936	113,262,015
– Corporate entities	69,048,694	72,316,715
Equity securities at fair value through other comprehensive income		
– Banks and other financial institutions	8,799	8,869
	188,884,253	222,979,531
	235,900,609	239,676,779

Note: Included in the debt securities at amortized cost is a fair value loss of hedging adjustment of HK\$431,100,000 (2021: HK\$2,880,000) which is not subject to ECL allowance (note 16 (c)).

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19 PROPERTY AND EQUIPMENT

	Equipment	Transportation equipment	Property improvement	Total
Cost				
As at 1 January 2022	85,340	–	83,253	168,593
Additions	2,975	3,126	155	6,256
Disposals	(706)	–	–	(706)
As at 30 June 2022	87,609	3,126	83,408	174,143
Accumulated depreciation				
As at 1 January 2022	(50,774)	–	(41,566)	(92,340)
Charge for the period	(6,379)	(87)	(7,028)	(13,494)
Disposals	482	–	–	482
As at 30 June 2022	(56,671)	(87)	(48,594)	(105,352)
Net book value				
As at 30 June 2022	30,938	3,039	34,814	68,791

	Equipment	Transportation equipment	Property improvement	Total
Cost				
As at 1 January 2021	73,436	–	54,703	128,139
Additions	12,707	–	28,598	41,305
Disposals	(803)	–	(48)	(851)
As at 31 December 2021	85,340	–	83,253	168,593
Accumulated depreciation				
As at 1 January 2021	(40,809)	–	(31,538)	(72,347)
Charge for the year	(10,623)	–	(10,038)	(20,661)
Disposals	658	–	10	668
As at 31 December 2021	(50,774)	–	(41,566)	(92,340)
Net book value				
As at 31 December 2021	34,566	–	41,687	76,253

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20 OTHER ASSETS

	As at 30 June 2022	As at 31 December 2021
Interest receivable	2,730,606	2,326,711
Other receivables, prepayments and others	854,336	165,192
Less: ECL allowances	(23,261)	(18,827)
	3,561,681	2,473,076
Settlement accounts	2,405,548	1,135,607
Intangible assets (a)	21,930	24,344
	5,989,159	3,633,027

(a) Intangible assets

	Software
Cost	
As at 1 January 2022	34,269
Additions	1,092
As at 30 June 2022	35,361
Accumulated amortization	
As at 1 January 2022	(9,925)
Amortization expenses	(3,506)
As at 30 June 2022	(13,431)
Net book value as at 30 June 2022	21,930

	Software
Cost	
As at 1 January 2021	24,016
Additions	10,253
As at 31 December 2021	34,269
Accumulated amortization	
As at 1 January 2021	(4,696)
Amortization expenses	(5,229)
As at 31 December 2021	(9,925)
Net book value as at 31 December 2021	24,344

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21 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2022	As at 31 December 2021
Deposits from banks and other financial institutions	40,387,543	21,126,208
Subordinated loan from the ultimate holding company	2,000,000	2,000,000
Financial assets sold under repurchase agreements (Note 31)	27,300,232	28,772,576
Total	69,687,775	51,898,784

On 19 January 2018, the Bank had drawn down a HKD2,000 million Tier 2 subordinated capital loan from the ultimate holding company due 19 January 2028. It has a floating rate of interest payable quarterly per annum in arrears for each interest period at the aggregate of 1.50% per annum and three month HIBOR.

22 DUE TO CUSTOMERS

	As at 30 June 2022	As at 31 December 2021
Demand deposits and current accounts	15,487,926	15,980,611
Saving deposits	80,719,623	82,059,322
Time, call, notice and other deposits	256,229,597	233,687,201
	352,437,146	331,727,134
Including:		
Deposits pledged as collateral	3,706,133	3,228,851

23 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2022	As at 31 December 2021
Derivative financial instruments (Note 16)	2,507,112	1,614,593

24 CERTIFICATES OF DEPOSITS ISSUED

	As at 30 June 2022	As at 31 December 2021
Carried at amortized cost	–	3,753,731
Carried at fair value through profit and loss	469,252	–
	469,252	3,753,731

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25 DEBT SECURITIES ISSUED

	As at 30 June 2022	As at 31 December 2021
Tier 2 capital bonds	7,844,950	7,796,690

On 8 July 2021, the Bank issued US\$1,000 million 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 resettable on year 5 at the prevailing 5-year U.S. Treasury yield plus 1.4% per annum.

26 OTHER LIABILITIES

	As at 30 June 2022	As at 31 December 2021
Interest payable	2,030,028	1,474,148
Settlement accounts	1,473,767	6,102,834
Withholding tax	61,042	63,805
Provision for ECL allowances on financial guarantee and credit related commitment	20,089	22,897
Others	1,198,880	1,794,403
Total	4,783,806	9,458,087

27 SHARE CAPITAL

	Number of shares	Share capital
As at 31 December 2021, 1 January 2022 and 30 June 2022	37,900,000,000	37,900,000

28 ADDITIONAL EQUITY INSTRUMENT

	As at 30 June 2022	As at 31 December 2021
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 US\$500 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 HK\$72,771,000 to the additional equity instrument holders for the period ended 30 June 2022 (30 June 2021: HK\$72,233,000). The equity instrument will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) rules. It ranks higher than ordinary shares in the event of a winding-up.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

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

29 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 2022	As at 31 December 2021
Letters of guarantee	55,185	73,635
Letters of credit commitments	500,466	248,129
Acceptances bills	36,715	82,350
Credit card commitments	5,005,951	5,099,298
Other credit related commitments		
- Under 1 year	13,370,498	12,205,578
- More than 1 year	8,709,866	9,366,777
	27,678,681	27,075,767

Capital expenditure commitments

	As at 30 June 2022	As at 31 December 2021
Contracted but not provided for	16,019	8,726

Operating lease commitments

As at 30 June 2022, the Bank has non-cancellable operating lease commitments of HK\$12,574,000 (31 December 2021: Nil) related to short-term leases, which are the leases with a lease term of 12 months or less.

30 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 2022	As at 31 December 2021
Cash and balances with central bank (Note 13)	1,703,760	10,906,604
Due from and placements with banks and other financial institutions	21,847,488	9,441,417
	23,551,248	20,348,021

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For the six months ended 30 June 2022

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31 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 2022 and 31 December 2021, 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 2022	As at 31 December 2021	As at 30 June 2022	As at 31 December 2021
Investment securities	28,501,069	31,003,531	(27,300,232)	(28,772,576)

32 MATERIAL RELATED PARTY TRANSACTIONS

During the period ended 30 June 2022, the Bank has purchased certain loans and advances to customers of HK\$4,198,945,000 (30 June 2021: HK\$23,474,486,000) from a branch of the ultimate holding company.

In addition to the above, all related party transactions that took place for the period ended 30 June 2022 were similar in nature to those disclosed in the 2021 Annual Report. There were no changes in the related party transactions described in the 2021 Annual Report that have had a material effect on the financial position or performance of the Bank for the period ended 30 June 2022.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

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

33 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 2022				
	Corporate Banking	Personal Banking	Treasury	Others	Total
External net interest income/(expense)	883,055	(611,865)	1,722,913	–	1,994,103
Inter-segment net interest income/(expense)	(432,778)	1,505,655	(1,072,877)	–	–
Net interest income	450,277	893,790	650,036	–	1,994,103
Other operating income	248,606	397,168	228,759	19	874,552
Total operating income	698,883	1,290,958	878,795	19	2,868,655
Change in expected credit losses	(344,780)	(70,636)	22,263	(17)	(393,170)
Other operating expense					
– Depreciation and amortization	(931)	(81,937)	(67)	(3,929)	(86,864)
– Others	(56,797)	(452,350)	(37,230)	(222,154)	(768,531)
Profit/(loss) before tax	296,375	686,035	863,761	(226,081)	1,620,090
Income tax expense	–	–	–	(257,163)	(257,163)
Net profit/(loss) for the period	296,375	686,035	863,761	(483,244)	1,362,927
As at 30 June 2022					
Segment assets	154,283,506	56,341,858	277,196,635	–	487,821,999
Unallocated assets	–	–	–	266,100	266,100
Total assets	154,283,506	56,341,858	277,196,635	266,100	488,088,099
Segment liabilities	(83,513,645)	(271,305,143)	(82,952,935)	–	(437,771,723)
Unallocated liabilities	–	–	–	(626,199)	(626,199)
Total liabilities	(83,513,645)	(271,305,143)	(82,952,935)	(626,199)	(438,397,922)

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2022

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

33 SEGMENTAL ANALYSIS (Continued)

	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)

34 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

Loans Portfolio transfer

Subsequent to the reporting date, the bank expanded its loans business by acquiring certain loans portfolio approximately HK\$2,676 million and HK\$1,166 million in July 2022 and Aug 2022 from Bank of Communications Co., Ltd Hong Kong Branch ("the Branch") respectively. These loan transfer transactions entered with the Branch were conducted in the ordinary and usual course of business and on normal commercial terms.

Impairment of loans and advances to customers

Subsequent to 30 June 2022, loans and advances to customers of HK\$4,467 million has been downgraded from Stage 2 to Stage 3 financial assets and provided an ECL allowance of HK\$724 million, the non-performing loan ratio has been increased from 0.24% as at 30 June 2022 to 2.35% as at 31 July 2022.