



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

2023 INTERIM REPORT



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Bank of Communications (Hong Kong) Limited

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INTERIM REPORT 2023

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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 pages 3 to 48 which comprises the unaudited interim statement of financial position of Bank of Communications (Hong Kong) Limited (the "Bank") as at 30 June 2023 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 interim 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 2023 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

7 September 2023

Unaudited Interim Statement of Profit or Loss and Other Comprehensive Income

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

	Notes	Six months ended 30 June	
		2023	2022
Interest income calculated using effective interest rate		10,907,343	3,922,407
Interest expense		(6,675,186)	(1,928,304)
Net interest income	4	4,232,157	1,994,103
Fee and commission income	5	587,401	533,945
Fee and commission expense	6	(38,470)	(33,971)
Net fee and commission income		548,931	499,974
Net (losses)/gains arising from trading activities	8	(383,076)	273,795
Net (losses)/gains arising from financial investments		(56,811)	87,390
Dividend income	7	35	35
Other operating income	9	12,446	13,358
Change in expected credit losses	10	(1,938,085)	(393,170)
Other operating expenses	11	(899,719)	(855,395)
Profit before tax		1,515,878	1,620,090
Income tax expenses	12	(242,446)	(257,163)
Net profit for the period		1,273,432	1,362,927
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>		449	(70)
<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 gains/(losses) recorded in equity</i>		860,751	(2,075,997)
<i>Net losses/(gains) reclassified from equity to profit or loss</i>		47,437	(72,971)
Other comprehensive income/(loss) for the period		908,637	(2,160,317)
Total comprehensive income/(loss) for the period		2,182,069	(797,390)

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)

	Notes	As at 30 June 2023	As at 31 December 2022
ASSETS			
Cash and balances with central bank	13	958,710	2,267,480
Due from and placements with banks and other financial institutions	14	27,965,618	24,547,060
Financial assets at fair value through profit or loss	15	14,314,195	13,577,897
Financial assets at amortized cost	18	55,216,110	49,711,258
Financial assets at fair value through other comprehensive income	18	146,846,393	161,352,270
Loans and advances to customers	17	199,129,370	208,047,769
Property and equipment	19	62,471	72,234
Deferred income tax assets		–	173,195
Right-of-use assets		301,692	169,447
Other assets	20	9,388,429	7,093,151
Total assets		454,182,988	467,011,761
LIABILITIES			
Due to banks and other financial institutions	21	28,765,827	58,293,873
Due to customers	22	347,461,642	338,218,450
Financial liabilities at fair value through profit or loss	23	3,677,044	1,994,313
Certificates of deposits issued	24	5,712,482	1,757,007
Current income tax liabilities		168,417	55,143
Deferred income tax liabilities		4,151	–
Lease liabilities		307,249	172,297
Debt securities issued	25	7,834,125	7,797,780
Other liabilities	26	7,593,182	8,172,978
Total liabilities		401,524,119	416,461,841
EQUITY			
Share capital	27	37,900,000	37,900,000
Other reserves		816,853	(91,784)
Retained earnings		10,070,566	8,870,254
Total equity attributable to shareholders of the Bank		48,787,419	46,678,470
Additional equity instrument	28	3,871,450	3,871,450
Total equity		52,658,869	50,549,920
Total equity and liabilities		454,182,988	467,011,761

The unaudited interim financial report was approved and authorized for issue by the Board of Directors on 7 September 2023 and signed on its behalf by:

Meng Yu, Director

Wu Ye, 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)

	Notes	Share capital	Other reserve	Retained earnings	Attributable to the shareholder of the Bank (Note (a))	Additional equity instrument	Total equity
At 1 January 2023		37,900,000	(91,784)	8,870,254	46,678,470	3,871,450	50,549,920
Net profit for the period		–	–	1,273,432	1,273,432	–	1,273,432
Other comprehensive income		–	908,637	–	908,637	–	908,637
		37,900,000	816,853	10,143,686	46,860,539	3,871,450	52,731,989
Dividends paid to additional equity instrument holders	28	–	–	(73,120)	(73,120)	–	(73,120)
At 30 June 2023		37,900,000	816,853	10,070,566	48,787,419	3,871,450	52,658,869
At 1 January 2022		37,900,000	2,180,194	6,608,694	46,688,888	3,871,450	50,560,338
Net profit for the period		–	–	1,362,927	1,362,927	–	1,362,927
Other comprehensive income		–	(2,160,317)	–	(2,160,317)	–	(2,160,317)
		37,900,000	19,877	7,971,621	45,891,498	3,871,450	49,762,948
Dividends paid to additional equity instrument holders	28	–	–	(72,771)	(72,771)	–	(72,771)
At 30 June 2022		37,900,000	19,877	7,898,850	45,818,727	3,871,450	49,690,177

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 2023, HK\$1,208,377,000 (30 June 2022: HK\$916,863,000) 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)

	Note	Six months ended 30 June	
		2023	2022
Net cash (outflows)/inflows from operating activities		(9,552,590)	84,377
Cash flows from investing activities:			
Purchase of financial investments		(34,252,521)	(67,773,416)
Disposal or redemption of financial investments		44,181,658	69,076,593
Dividend received		35	35
Interest received from financial investments		5,757,638	2,056,923
Purchase of property and equipment		(3,233)	(6,256)
Disposal of property and equipment		421	–
Purchase of intangible assets		(5,919)	(1,092)
Net cash inflows from investing activities		15,678,079	3,352,787
Cash flows from financing activities:			
Principal elements of lease payments		(71,954)	(70,643)
Interest paid for lease		(1,679)	(903)
Interest paid for debt securities issued		(89,921)	(89,620)
Dividend paid to additional equity instrument holders		(73,120)	(72,771)
Net cash outflows from financing activities		(236,674)	(233,937)
Net increase in cash and cash equivalents		5,888,815	3,203,227
Cash and cash equivalents at the beginning of the period		14,164,322	20,348,021
Cash and cash equivalents at the end of the period	30	20,053,137	23,551,248

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 2023

(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 2022 that is included in the unaudited interim financial report for the six months ended 30 June 2023 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 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (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 2022.

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 2022.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2023

(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 2023 applied by the Bank

Amendments to HKAS 8	Accounting Estimates
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

The amendments listed above did not have any material impacts 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 2023 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 judgements 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 2022, 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.
- 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.

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 factors 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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2023

(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)*

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

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

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

3.1.1.2 Forward-looking information incorporated in the ECL models

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

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process. Forecasts of these economic variables to come up with the base economic scenario over the next five years are gathered from different sources including 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.

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. At 1 January 2023 and 30 June 2023, the Bank concluded that three scenarios are used in the calculation. The scenario weightings are determined by expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

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

As with any economic forecasts, the projections and likelihoods of occurrence of the economic scenarios are based on estimates to future economic conditions which are sensitive to changes in these conditions caused by macro events, including the COVID-19 pandemic and geopolitical developments. They are therefore subject to a high degree of inherent uncertainty and therefore 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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2023

(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)*

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. As the pandemic containment measures are loosened subsequently, the global economic activities have gradually resumed in the year of 2022. It is expected that recovery would be slowing down in the year of 2023.

The above development of COVID-19 pandemic and geopolitical environment changes in the first half of 2023 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 continued to adopt the use of three economic scenarios for all portfolios. They represent a most likely scenario (i.e. 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.

The base scenario can be described as follows: After moderate rebound of the global economy is observed in 2022, a mild recovery is expected in 2023 as contractionary monetary policies are continued to be implemented in most developed countries to combat high level of inflation. GDP in most regions is rebounded in 2022 and is expected to further expand in 2023. However, the level of recovery is highly uneven in the global economy. China's GDP will expand moderately while a mild recovery is forecasted in Hong Kong. The unemployment rate is further dropped in 2023 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, legislative or political 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 for appropriateness on a regular basis.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2023

(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 2023	As at 31 December 2022
Probability-weighted ECL	3,797,652	2,956,301
Base ECL	3,759,035	2,902,207
Difference in amount	38,617	54,094
Difference in percentage	1.0%	1.8%

Management judgemental adjustment

As Hong Kong's local economy is highly dependent on external circumstances, comprehensive recovery of local tourism, retail, catering and other industries is not yet occurred. The relief measures of the Hong Kong government are still maintained. The future risks of loans to local Small and Medium Enterprises ("SME") in the Bank's loan portfolio have not been fully reflected in the model, thus management judgemental adjustment has been established and made for the period ended 30 June 2023.

As far as HKFRS 9 is concerned, management judgemental 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 judgemental adjustment made in estimating the reported ECL at 30 June 2023 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 2023	As at 31 December 2022
SME lending adjustments	176,453	203,175
Probability-weighted ECL	3,797,652	2,956,301
Percentage of adjustments	4.6%	6.9%

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 SME and exit the management judgemental adjustment at an appropriate time.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2023

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Credit risk exposure – Collateral

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

As at 30 June 2023:

	Gross exposure	ECL allowance	Carrying amount	Fair value of collateral held
Loans to individuals	82,549	(29,959)	52,590	45,794
Loans to corporate entities	6,101,181	(3,706,101)	2,395,080	437,227
	6,183,730	(3,736,060)	2,447,670	483,021

As at 31 December 2022:

	Gross exposure	ECL allowance	Carrying amount	Fair value of collateral held
Loans to individuals	48,072	(29,141)	18,931	17,489
Loans to corporate entities	5,752,876	(1,982,779)	3,770,097	44,586
	5,800,948	(2,011,920)	3,789,028	62,075

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2023

(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 2023	131,707,658	12,812,245	5,752,876	150,272,779
Transfers:				
Transfer from Stage 1 to Stage 2	(5,845,439)	5,845,439	–	–
Transfer from Stage 1 to Stage 3	(21,846)	–	21,846	–
Transfer from Stage 2 to Stage 1	276,781	(276,781)	–	–
Transfer from Stage 2 to Stage 3	–	(500,450)	500,450	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending (Note)	(9,981,171)	(907,772)	(15,380)	(10,904,323)
Write-offs	–	–	(169,314)	(169,314)
Foreign exchange and other movements	75,703	15,061	10,703	101,467
Gross carrying amount as at 30 June 2023	116,211,686	16,987,742	6,101,181	139,300,609

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

Corporate Loan	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	125,182,867	8,362,962	129,154	133,674,983
Transfers:				
Transfer from Stage 1 to Stage 2	(4,167,466)	4,167,466	–	–
Transfer from Stage 1 to Stage 3	(1,580,696)	–	1,580,696	–
Transfer from Stage 2 to Stage 1	97,150	(97,150)	–	–
Transfer from Stage 2 to Stage 3	–	(3,744,613)	3,744,613	–
Transfer from stage 3 to stage 1	5,986	–	(5,986)	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending (Note)	12,171,972	4,123,875	304,402	16,600,249
Write-offs	–	–	–	–
Foreign exchange and other movements	(2,155)	(295)	(3)	(2,453)
Gross carrying amount as at 31 December 2022	131,707,658	12,812,245	5,752,876	150,272,779

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2023

(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

Corporate Loan	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
ECL allowance as at 1 January 2023	526,961	92,350	1,982,779	2,602,090
Transfers:				
Transfer from Stage 1 to Stage 2	(28,318)	28,318	–	–
Transfer from Stage 1 to Stage 3	(513)	–	513	–
Transfer from Stage 2 to Stage 1	11,836	(11,836)	–	–
Transfer from Stage 2 to Stage 3	–	(10,857)	10,857	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	12,237	3,424	112,169	127,830
Changes in PDs/LGDs/EADs	(21,683)	25,884	1,746,091	1,750,292
Unwind of discount	4,914	1,686	19,899	26,499
Write-offs	–	–	(169,314)	(169,314)
Foreign exchange and other movements	387	66	3,107	3,560
ECL allowance as at 30 June 2023	505,821	129,035	3,706,101	4,340,957
	Stage 1	Stage 2	Stage 3	
Corporate Loan	12-month ECL allowance	Lifetime ECL allowance	Lifetime ECL allowance	Total
ECL allowance as at 1 January 2022	614,132	78,712	53,131	745,975
Transfers:				
Transfer from Stage 1 to Stage 2	(14,714)	14,714	–	–
Transfer from Stage 1 to Stage 3	(9,151)	–	9,151	–
Transfer from Stage 2 to Stage 1	14,735	(14,735)	–	–
Transfer from Stage 2 to Stage 3	–	(19,909)	19,909	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	32,936	29,415	17,022	79,373
Changes in PDs/LGDs/EADs	(110,904)	2,780	1,883,568	1,775,444
Unwind of discount	–	1,374	–	1,374
Write-offs	–	–	–	–
Foreign exchange and other movements	(73)	(1)	(2)	(76)
ECL allowance as at 31 December 2022	526,961	92,350	1,982,779	2,602,090

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For the six months ended 30 June 2023

(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 2023	59,956,467	566,957	48,072	60,571,496
Transfers:				
Transfer from Stage 1 to Stage 2	(191,835)	191,835	–	–
Transfer from Stage 1 to Stage 3	(31,855)	–	31,855	–
Transfer from Stage 2 to Stage 1	431,968	(431,968)	–	–
Transfer from Stage 2 to Stage 3	–	(21,530)	21,530	–
Transfer from Stage 3 to Stage 1	408	–	(408)	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending (Note)	3,848,866	(63,473)	(14,751)	3,770,642
Write-offs	–	–	(3,749)	(3,749)
Foreign exchange and other movements	1,233	(1)	–	1,232
Gross carrying amount as at 30 June 2023	64,015,252	241,820	82,549	64,339,621

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 2022	52,457,668	159,961	72,815	52,690,444
Transfers:				
Transfer from Stage 1 to Stage 2	(428,781)	428,781	–	–
Transfer from Stage 1 to Stage 3	(20,755)	–	20,755	–
Transfer from Stage 2 to Stage 1	87,001	(87,001)	–	–
Transfer from Stage 2 to Stage 3	–	(9,609)	9,609	–
Transfer from Stage 3 to Stage 1	34,043	–	(34,043)	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending (Note)	7,827,727	74,827	(15,525)	7,887,029
Write-offs	–	–	(5,537)	(5,537)
Foreign exchange and other movements	(436)	(2)	(2)	(440)
Gross carrying amount as at 31 December 2022	59,956,467	566,957	48,072	60,571,496

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 2023

(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

Retail Loan	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
ECL allowance as at 1 January 2023	27,606	47,299	29,141	104,046
Transfers:				
Transfer from Stage 1 to Stage 2	(161)	161	–	–
Transfer from Stage 1 to Stage 3	(33)	–	33	–
Transfer from Stage 2 to Stage 1	39,070	(39,070)	–	–
Transfer from Stage 2 to Stage 3	–	(1,929)	1,929	–
Transfer from Stage 3 to Stage 1	201	–	(201)	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	3,974	(2,052)	(715)	1,207
Changes in PDs/LGDs/EADs	(34,731)	14,151	2,223	(18,357)
Unwind of discount	206	738	213	1,157
Recoveries of loans written-off in previous years	–	–	1,085	1,085
Write-offs	–	–	(3,749)	(3,749)
Foreign exchange and other movements	–	37	–	37
ECL allowance as at 30 June 2023	36,132	19,335	29,959	85,426

Retail Loan	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
ECL allowance as at 1 January 2022	85,088	30,376	23,584	139,048
Transfers:				
Transfer from Stage 1 to Stage 2	(957)	957	–	–
Transfer from Stage 1 to Stage 3	(61)	–	61	–
Transfer from Stage 2 to Stage 1	16,601	(16,601)	–	–
Transfer from Stage 2 to Stage 3	–	(1,716)	1,716	–
Transfer from Stage 3 to Stage 1	1	–	(1)	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	(6,843)	13,196	3,081	9,434
Changes in PDs/LGDs/EADs	(66,221)	20,681	5,888	(39,652)
Unwind of discount	–	407	–	407
Recoveries of loans written-off in previous years	–	–	351	351
Write-offs	–	–	(5,537)	(5,537)
Foreign exchange and other movements	(2)	(1)	(2)	(5)
ECL allowance as at 31 December 2022	27,606	47,299	29,141	104,046

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For the six months ended 30 June 2023

(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)*

Loans and advances to customers	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
ECL allowance as at 1 January 2023	554,567	139,649	2,011,920	2,706,136
Transfers:				
Transfer from Stage 1 to Stage 2	(28,479)	28,479	–	–
Transfer from Stage 1 to Stage 3	(546)	–	546	–
Transfer from Stage 2 to Stage 1	50,906	(50,906)	–	–
Transfer from Stage 2 to Stage 3	–	(12,786)	12,786	–
Transfer from Stage 3 to Stage 1	201	–	(201)	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	16,211	1,372	111,454	129,037
Changes in PDs/LGDs/EADs	(56,414)	40,035	1,748,314	1,731,935
Unwind of discount	5,120	2,424	20,112	27,656
Recoveries of loans written-off in previous years	–	–	1,085	1,085
Write-offs	–	–	(173,063)	(173,063)
Foreign Exchange and other movements	387	103	3,107	3,597
ECL allowance as at 30 June 2023	541,953	148,370	3,736,060	4,426,383
Loans and advances to customers	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
ECL allowance as at 1 January 2022	699,220	109,088	76,715	885,023
Transfers:				
Transfer from Stage 1 to Stage 2	(15,671)	15,671	–	–
Transfer from Stage 1 to Stage 3	(9,212)	–	9,212	–
Transfer from Stage 2 to Stage 1	31,336	(31,336)	–	–
Transfer from Stage 2 to Stage 3	–	(21,625)	21,625	–
Transfer from Stage 3 to Stage 1	1	–	(1)	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	26,093	42,611	20,103	88,807
Changes in PDs/LGDs/EADs	(177,125)	23,461	1,889,456	1,735,792
Unwind of discount	–	1,781	–	1,781
Recoveries of loans written-off in previous years	–	–	351	351
Write-offs	–	–	(5,537)	(5,537)
Foreign Exchange and other movements	(75)	(2)	(4)	(81)
ECL allowance as at 31 December 2022	554,567	139,649	2,011,920	2,706,136

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For the six months ended 30 June 2023

(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 2023	–	–	–	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	–	–	–	–
Gross carrying amount as at 30 June 2023	–	–	–	–

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	(2,862,977)	–	–	(2,862,977)
Gross carrying amount as at 31 December 2022	–	–	–	–

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 as at 1 January 2023	–	–	–	–
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	–	–	–	–
ECL allowance as at 30 June 2023	–	–	–	–

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 as at 1 January 2022	839	–	–	839
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	(839)	–	–	(839)
ECL allowance as at 31 December 2022	–	–	–	–

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For the six months ended 30 June 2023

(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 – Due from and placements with banks and other financial institutions

Due from and placements with banks and other financial institutions	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	24,549,023	–	–	24,549,023
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	3,447,039	–	–	3,447,039
Foreign exchange and other movements	(28,238)	–	–	(28,238)
Gross carrying amount as at 30 June 2023	27,967,824	–	–	27,967,824
Due from and placements with banks and other financial institutions	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	10,959,607	–	–	10,959,607
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	13,795,111	–	–	13,795,111
Foreign exchange and other movements	(205,695)	–	–	(205,695)
Gross carrying amount as at 31 December 2022	24,549,023	–	–	24,549,023

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For the six months ended 30 June 2023

(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 – Due from and placements with banks and other financial institutions

Due from and placements with banks and other financial institutions	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
ECL allowance as at 1 January 2023	1,963	–	–	1,963
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	716	–	–	716
Changes in PDs/LGDs/EADs	(493)	–	–	(493)
Unwind of discount	5	–	–	5
Foreign Exchange and other movements	15	–	–	15
ECL allowance as at 30 June 2023	2,206	–	–	2,206

Due from and placements with banks and other financial institutions	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
ECL allowance as at 1 January 2022	291	–	–	291
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	1,878	–	–	1,878
Changes in PDs/LGDs/EADs	(184)	–	–	(184)
Unwind of discount	–	–	–	–
Foreign Exchange and other movements	(22)	–	–	(22)
ECL allowance as at 31 December 2022	1,963	–	–	1,963

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For the six months ended 30 June 2023

(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 2023	160,722,835	620,848	–	161,343,683
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	(16,069,181)	1,866,706	–	(14,202,475)
Foreign Exchange and other movements	(305,590)	1,739	–	(303,851)
Gross carrying amount as at 30 June 2023	144,348,064	2,489,293	–	146,837,357

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
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	(58,991,647)	372,885	–	(58,618,762)
Foreign exchange and other movements	(3,008,189)	(28)	–	(3,008,217)
Gross carrying amount as at 31 December 2022	160,722,835	620,848	–	161,343,683

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 as at 1 January 2023	184,196	2,177	–	186,373
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	924	582	–	1,506
Changes in PDs/LGDs/EADs	106	5,395	–	5,501
Unwind of discount	1,177	37	–	1,214
Foreign Exchange and other movements	537	10	–	547
ECL allowance as at 30 June 2023	186,940	8,201	–	195,141

Debt securities at fair value through other comprehensive income	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
ECL allowance as at 1 January 2022	233,854	3,056	–	236,910
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	(3,751)	(1,948)	–	(5,699)
Changes in PDs/LGDs/EADs	(44,486)	976	–	(43,510)
Unwind of discount	–	94	–	94
Foreign exchange and other movements	(1,421)	(1)	–	(1,422)
ECL allowance as at 31 December 2022	184,196	2,177	–	186,373

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For the six months ended 30 June 2023

(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 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Gross carrying amount as at 1 January 2023	50,354,809	199,301	–	50,554,110
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	5,968,571	43,489	–	6,012,060
Foreign Exchange and other movements	(247,899)	929	–	(246,970)
Gross carrying amount as at 30 June 2023	56,075,481	243,719	–	56,319,200
	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	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	33,644,039	199,301	–	33,843,340
Foreign Exchange and other movements	(148)	–	–	(148)
Gross carrying amount as at 31 December 2022	50,354,809	199,301	–	50,554,110

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For the six months ended 30 June 2023

(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

Debt securities at amortized cost	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
ECL allowance as at 1 January 2023	23,869	693	–	24,562
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	11,856	606	–	12,462
Changes in PDs/LGDs/EADs	8,824	(714)	–	8,110
Unwind of discount	212	18	–	230
Foreign Exchange and other movements	(19)	3	–	(16)
ECL allowance as at 30 June 2023	44,742	606	–	45,348

Debt securities at amortized cost	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
ECL allowance as at 1 January 2022	10,790	–	–	10,790
New financial assets originated or purchased, assets remeasurement, derecognized, repayments and further lending	12,683	693	–	13,376
Changes in PDs/LGDs/EADs	396	–	–	396
Unwind of discount	–	–	–	–
Foreign Exchange and other movements	–	–	–	–
ECL allowance as at 31 December 2022	23,869	693	–	24,562

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For the six months ended 30 June 2023

(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.

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

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

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

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

	Level 1	Level 2	Level 3	Total
As at 30 June 2023				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	107,941	–	–	107,941
– Banks and other financial institutions	253,615	–	–	253,615
– Corporate entities	194,761	–	–	194,761
Derivative financial instruments				
– Foreign exchange contracts	–	1,836,335	–	1,836,335
– Interest rate contracts and others	–	11,921,543	–	11,921,543
	556,317	13,757,878	–	14,314,195
Financial assets at fair value through other comprehensive income				
Debt securities				
– Governments and central banks	13,255,101	670,852	–	13,925,953
– Banks and other financial institutions	63,141,403	6,925,507	–	70,066,910
– Corporate entities	62,031,638	812,856	–	62,844,494
Equity securities				
– Banks and other financial institutions	–	–	9,036	9,036
	138,428,142	8,409,215	9,036	146,846,393
Total financial assets measured at fair value	138,984,459	22,167,093	9,036	161,160,588
Financial liabilities at fair value through profit or loss				
Certificates of deposits issued				
	–	3,019,737	–	3,019,737
Derivative financial instruments				
– Foreign exchange contracts	–	3,088,076	–	3,088,076
– Interest rate contracts and others	–	588,968	–	588,968
Total financial liabilities measured at fair value	–	6,696,781	–	6,696,781

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For the six months ended 30 June 2023

(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 2022				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	233	–	–	233
– Banks and other financial institutions	230,896	–	–	230,896
– Corporate entities	212,998	–	–	212,998
Derivative financial instruments				
– Foreign exchange contracts	–	1,244,122	–	1,244,122
– Interest rate contracts and others	–	11,889,648	–	11,889,648
	444,127	13,133,770	–	13,577,897
Financial assets at fair value through other comprehensive income				
Debt securities				
– Governments and central banks	13,990,493	1,749,792	–	15,740,285
– Banks and other financial institutions	71,803,617	9,621,833	–	81,425,450
– Corporate entities	63,433,127	744,821	–	64,177,948
Equity securities				
– Banks and other financial institutions	–	–	8,587	8,587
	149,227,237	12,116,446	8,587	161,352,270
Total financial assets measured at fair value	149,671,364	25,250,216	8,587	174,930,167
Financial liabilities at fair value through profit or loss				
Certificates of deposits issued				
	–	1,757,007	–	1,757,007
Derivative financial instruments				
– Foreign exchange contracts	–	1,367,784	–	1,367,784
– Interest rate contracts and others	–	626,529	–	626,529
Total financial liabilities measured at fair value	–	3,751,320	–	3,751,320

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

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

(c) Financial instruments not measured at fair value

The table below summarizes the carrying amounts and fair values where there are obvious variances from the carrying amounts, of those financial assets and liabilities that are not presented on the statement of financial position at their fair value:

	As at 30 June 2023		As at 31 December 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial assets at amortized cost	55,216,110	55,248,783	49,711,258	49,341,253
Financial liabilities				
Certificates of deposits issued at amortized cost	2,692,745	2,696,627	–	–
Debt securities issued	7,834,125	7,084,537	7,797,780	7,776,336

Fair value hierarchy of financial instruments not measured at fair value:

	Level 1	Level 2	Level 3	Total
As at 30 June 2023				
Financial assets				
Financial assets at amortized cost	39,050,601	16,198,182	–	55,248,783
Financial liabilities				
Certificates of deposits issued at amortized cost	–	2,696,627	–	2,696,627
Debt securities issued	7,084,537	–	–	7,084,537
As at 31 December 2022				
Financial assets				
Financial assets at amortized cost	31,441,672	17,899,581	–	49,341,253
Financial liabilities				
Debt securities issued	7,776,336	–	–	7,776,336

Other financial instruments not carried at fair value are typically short-term in nature or repriced to current market rates frequently. Accordingly, their carrying amounts are reasonable approximations of their fair values.

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 2023 and 31 December 2022. The column 'net amount' shows the impact on the Bank's statement of financial position if all set-off rights were exercised.

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For the six months ended 30 June 2023

(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 liabilities	Gross amounts of recognized financial assets	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 2023							
Financial assets							
Derivative financial instruments	13,757,878	–	13,757,878	(1,400,204)	(1,746,816)		10,610,858
Financial assets at fair value through other comprehensive income	11,474,068	–	11,474,068	(10,838,501)		–	635,567
Other assets	3,512,079	(92,813)	3,419,266	–		–	3,419,266
Total	28,744,025	(92,813)	28,651,212	(12,238,705)	(1,746,816)		14,665,691
Financial liabilities							
Derivative financial instruments	3,677,044	–	3,677,044	(1,400,204)	(3,003,024)		(726,184)
Due to banks and other financial institutions	10,838,501	–	10,838,501	(10,838,501)		–	–
Other liabilities	1,067,751	(92,813)	974,938	–		–	974,938
Total	15,583,296	(92,813)	15,490,483	(12,238,705)	(3,003,024)		248,754

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3 FINANCIAL RISK MANAGEMENT *(continued)*

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

	Gross amounts of recognized financial assets	Gross liabilities set off in the statement of financial position	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset		Net amount
					Financial instruments (including non-cash collateral)	Cash collateral received	
As at 31 December 2022							
Financial assets							
Derivative financial instruments	13,133,770	–	–	13,133,770	(2,176,791)	(1,584,708)	9,372,271
Financial assets at fair value through other comprehensive income	23,615,867	–	–	23,615,867	(21,882,034)	–	1,733,833
Other assets	2,011,420	(33,511)	–	1,977,909	–	–	1,977,909
Total	38,761,057	(33,511)	–	38,727,546	(24,058,825)	(1,584,708)	13,084,013

	Gross amounts of recognized financial liabilities	Gross assets set off in the statement of financial position	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset		Net amount
					Financial instruments (including non-cash collateral)	Cash collateral advanced	
Financial liabilities							
Derivative financial instruments	1,994,313	–	–	1,994,313	(2,176,791)	(1,131,683)	(1,314,161)
Due to banks and other financial institutions	21,882,034	–	–	21,882,034	(21,882,034)	–	–
Other liabilities	1,269,004	(33,511)	–	1,235,493	–	–	1,235,493
Total	25,145,351	(33,511)	–	25,111,840	(24,058,825)	(1,131,683)	(78,668)

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For the six months ended 30 June 2023

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

4 NET INTEREST INCOME

	Six months ended 30 June	
	2023	2022
Interest income		
Due from and placements with banks and other financial institutions	699,920	132,389
Loans and advances to customers	4,461,626	1,701,197
Financial assets at amortized cost	1,157,323	218,025
Financial assets at fair value through other comprehensive income	4,588,474	1,870,796
	10,907,343	3,922,407
Interest expense		
Due to banks and other financial institutions	(934,303)	(346,461)
Due to customers	(5,630,369)	(1,486,633)
Debt securities and certificates of deposit issued carried at amortized cost	(110,514)	(95,210)
	(6,675,186)	(1,928,304)
Net interest income	4,232,157	1,994,103

5 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2023	2022
Settlement service	24,129	22,982
Interchange service	12,672	9,533
Credit facilities, guarantee and commitment	15,150	7,411
Agency service	504,312	462,757
Depository service	27,453	27,895
Others	3,685	3,367
	587,401	533,945

6 FEE AND COMMISSION EXPENSE

	Six months ended 30 June	
	2023	2022
Settlement and brokerage service	25,264	25,030
Interchange service	5,795	5,025
Others	7,411	3,916
	38,470	33,971

7 DIVIDEND INCOME

	Six months ended 30 June	
	2023	2022
Financial assets at fair value through other comprehensive income – unlisted investment	35	35

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2023

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

8 NET (LOSSES)/GAINS ARISING FROM TRADING ACTIVITIES

	Six months ended 30 June	
	2023	2022
Foreign exchange	(322,841)	430,340
Interest rate instruments and others	(98,724)	(185,881)
Debt securities at fair value through profit or loss	(26,992)	(38,848)
Net gains of interest rate instruments and items under fair value hedge	65,020	68,061
Others	461	123
	(383,076)	273,795

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

Net losses 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	
	2023	2022
Management fee received from a branch of the ultimate holding company	1,645	1,149
Others	10,801	12,209
	12,446	13,358

10 CHANGE IN EXPECTED CREDIT LOSSES

	Six months ended 30 June	
	2023	2022
Change in ECL allowance		
Loans and advances to customers	1,892,225	415,292
Financial investments at amortized cost	20,786	10,967
Financial investments at fair value through other comprehensive income	8,768	(35,867)
Cash and balances with central bank	–	(46)
Other receivables	15,031	4,638
Due from and placements with banks and other financial institutions	243	994
Financial guarantee and credit related commitment	1,032	(2,808)
	1,938,085	393,170

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For the six months ended 30 June 2023

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

11 OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2023	2022
Staff costs		
– salaries and other allowances	320,015	294,383
– retirement benefit costs	25,382	21,720
General operational and administrative expenses	78,418	107,419
Depreciation and amortization	17,095	17,000
Depreciation of right-of-use assets	74,661	69,864
Auditor's remuneration	1,981	2,774
Buildings administration fee	5,579	5,426
Rental expenses	23,280	26,324
Repairs and maintenance	16,232	15,804
Printing, postage and telegram	19,182	19,784
Directors', senior management's and key personnel's emoluments	12,094	11,183
Management fee paid to a branch of the ultimate holding company	293,167	251,759
Finance costs – lease interest expense	1,679	903
Loss on disposal of property and equipment	26	224
Others	10,928	10,828
	899,719	855,395

12 INCOME TAX EXPENSES

	Six months ended 30 June	
	2023	2022
Current tax		
– Hong Kong profits tax	244,569	298,940
– Over provision in prior periods	(10)	–
	244,559	298,940
Deferred tax	(2,113)	(41,777)
Income tax expenses	242,446	257,163

The current tax provision for the period ended 30 June 2023 and 2022 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	As at
	30 June	31 December
	2023	2022
Cash	382,395	710,229
Balances with central bank	576,317	1,557,253
Less: ECL allowance	(2)	(2)
	958,710	2,267,480

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2023

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

14 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2023	As at 31 December 2022
Due from and placements with banks and other financial institutions	3,787,255	3,070,118
Placements with and loans to banks	24,180,569	21,478,905
Less: ECL allowances	(2,206)	(1,963)
	27,965,618	24,547,060

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2023	As at 31 December 2022
Derivative financial instruments (Note 16)	13,757,878	13,133,770
Debt securities at fair value through profit or loss		
– Unlisted	556,317	444,127
	14,314,195	13,577,897

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

	As at 30 June 2023	As at 31 December 2022
Debt securities at fair value through profit or loss		
– Governments and central banks	107,941	233
– Banks and other financial institutions	253,615	230,896
– Corporate entities	194,761	212,998
	556,317	444,127

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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2023

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

16 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

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

The notional amounts of certain types of financial instruments provide a reference of the amounts recognized in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

	For hedging			For trading			Total		
	Contractual/ notional amount	Fair values		Contractual/ notional amount	Fair values		Contractual/ notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities		Assets	Liabilities
As at 30 June 2023									
Foreign exchange contracts	-	-	-	337,473,961	1,836,335	(3,088,076)	337,473,961	1,836,335	(3,088,076)
Interest rate contracts and others	120,988,213	11,337,261	(5,036)	131,600,615	584,282	(583,932)	252,588,828	11,921,543	(588,968)
Total amount of derivative instruments recognized	120,988,213	11,337,261	(5,036)	469,074,576	2,420,617	(3,672,008)	590,062,789	13,757,878	(3,677,044)
As at 31 December 2022									
Foreign exchange contracts	-	-	-	237,747,294	1,244,122	(1,367,784)	237,747,294	1,244,122	(1,367,784)
Interest rate contracts and others	113,486,400	11,217,237	(3,705)	36,690,366	672,411	(622,824)	150,176,766	11,889,648	(626,529)
Total amount of derivative instruments recognized	113,486,400	11,217,237	(3,705)	274,437,660	1,916,533	(1,990,608)	387,924,060	13,133,770	(1,994,313)

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 2023	As at 31 December 2022
Renminbi	60,917,085	47,658,390
United States Dollar	352,047,470	191,426,511
Hong Kong Dollar	169,757,673	142,328,142
Others	7,340,561	6,511,017
Total	590,062,789	387,924,060

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 2023						
Fair value hedge						
Interest rate						
Interest rate contract						
Notional	809,265	2,745,861	7,131,532	63,022,751	47,278,804	120,988,213
Average fixed interest rate	2.80%	3.80%	3.48%	3.42%	3.35%	3.40%
As at 31 December 2022						
Fair value hedge						
Interest rate						
Interest rate contract						
Notional	633,764	1,606,054	9,740,324	57,755,634	43,750,624	113,486,400
Average fixed interest rate	3.96%	3.21%	3.80%	3.25%	3.29%	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 2023					
Fair value hedge					
Interest rate					
Interest rate contract	120,988,213	11,337,261	(5,036)	Financial assets/liabilities at fair value through profit or loss	132,746
As at 31 December 2022					
Fair value hedge					
Interest rate					
Interest rate contract	113,486,400	11,217,237	(3,705)	Financial assets/liabilities at fair value through profit or loss	10,315,164

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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 2023	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	11,145,785	(10,386,825)	Financial asset at fair value through other comprehensive income	161,469	59,722
Debt investments	1,155,387	(1,057,742)	Financial asset at amortized cost	(235,088)	7,243
Loans and advances to customers	661,805	(84,477)	Loans and advances to customers	5,893	(1,945)

As at 31 December 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	90,108,108	(10,496,907)	Financial asset at fair value through other comprehensive income	(9,069,824)	271,083
Debt investments	10,765,407	(818,290)	Financial asset at amortized cost	(820,810)	(6,681)
Loans and advances to customers	1,468,123	(90,370)	Loans and advances to customers	(160,070)	58

d) 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 2023	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	–	65,020	Net gains arising from trading activities
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

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16 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Exposures to interbank offered rates

In May 2023, according to the major clearing houses proposed timeline, the Bank has converted its IBOR derivative contracts with maturity date beyond 30 June 2023 to alternative overnight risk free rates. As at 30 June 2023, the remaining IBOR derivative exposures represents the final cash flow valued under IBOR and expected to be settled by early October 2023.

As at 30 June 2023, 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 2023	As at 31 December 2022
Fair value hedge		
Interest rate contract		
USD London Interbank Offered Rate	80,368,236	90,791,432

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 2023, 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 2023	24,306,845	682,973	97,972,002
As at 31 December 2022	35,778,701	159,812	98,961,418

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 2023	As at 31 December 2022
Loans and advances to customers at amortized cost		
Loans and advances to customers	203,555,753	210,753,905
Less: ECL allowance	(4,426,383)	(2,706,136)
	199,129,370	208,047,769

17.2 Analysis of loans and advances to customers by staging

As at 30 June 2023	Stage 1 allowance	Stage 2 allowance	Stage 3 allowance	Total
Loans and advances to customers				
– Carried at amortized cost (Note)	180,142,461	17,229,562	6,183,730	203,555,753
Less: ECL allowance	(541,953)	(148,370)	(3,736,060)	(4,426,383)
– Carried at fair value through other comprehensive income	–	–	–	–
Net loans and advances to customers	179,600,508	17,081,192	2,447,670	199,129,370

Note: Stage 1 balance included a fair value loss of hedging adjustment of HK\$84,477,000 which is not subject to ECL allowance (note 16 (c)).

As at 31 December 2022	Stage 1 allowance	Stage 2 allowance	Stage 3 allowance	Total
Loans and advances to customers				
– Carried at amortized cost (Note)	191,573,755	13,379,202	5,800,948	210,753,905
Less: ECL allowance	(554,567)	(139,649)	(2,011,920)	(2,706,136)
– Carried at fair value through other comprehensive income	–	–	–	–
Net loans and advances to customers	191,019,188	13,239,553	3,789,028	208,047,769

Note: Stage 1 balance included a fair value loss of hedging adjustment of HK\$90,370,000 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 2023	As at 31 December 2022
Unsecured loans	38,888,649	44,552,577
Loan secured by guarantee	61,370,371	67,523,538
Collateralized and other secured loans	103,296,733	98,677,790
Gross amount of loans and advances to customers before ECL allowances	203,555,753	210,753,905

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18 FINANCIAL INVESTMENTS

	As at 30 June 2023	As at 31 December 2022
Financial assets at amortized cost		
Debt securities at amortized cost (Note)		
– Listed	16,224,877	12,015,178
– Unlisted	39,036,581	37,720,642
Less: ECL allowance	(45,348)	(24,562)
	55,216,110	49,711,258
Financial assets at fair value through other comprehensive income		
Debt securities at fair value through other comprehensive income		
– Listed	68,401,757	72,389,534
– Unlisted	78,435,600	88,954,149
Equity securities at fair value through other comprehensive income		
– Unlisted	9,036	8,587
	146,846,393	161,352,270
	202,062,503	211,063,528

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 2023	As at 31 December 2022
Financial assets at amortized cost		
Debt securities at amortized cost		
– Governments and central banks	18,862,578	20,756,228
– Banks and other financial institutions	28,470,077	25,610,986
– Corporate entities	7,883,455	3,344,044
	55,216,110	49,711,258
Financial assets at fair value through other comprehensive income		
Debt securities at fair value through other comprehensive income		
– Governments and central banks	13,925,953	15,740,285
– Banks and other financial institutions	70,066,910	81,425,450
– Corporate entities	62,844,494	64,177,948
Equity securities at fair value through other comprehensive income		
– Banks and other financial institutions	9,036	8,587
	146,846,393	161,352,270
	202,062,503	211,063,528

Note: Included in the debt securities at amortized cost is a fair value loss of hedging adjustment of HK\$1,057,742,000 (2022: HK\$818,290,000) which is not subject to ECL allowance (note 16 (c)).

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19 PROPERTY AND EQUIPMENT

	Equipment	Property improvement	Transportation equipment	Total
Cost				
As at 1 January 2023	98,429	89,250	3,126	190,805
Additions	3,233	–	–	3,233
Disposals	(2,219)	(421)	–	(2,640)
As at 30 June 2023	99,443	88,829	3,126	191,398
Accumulated depreciation				
As at 1 January 2023	(62,416)	(55,547)	(608)	(118,571)
Charge for the period	(6,480)	(5,548)	(521)	(12,549)
Disposals	2,193	–	–	2,193
As at 30 June 2023	(66,703)	(61,095)	(1,129)	(128,927)
Net book value				
As at 30 June 2023	32,740	27,734	1,997	62,471

	Equipment	Property improvement	Transportation equipment	Total
Cost				
As at 1 January 2022	85,340	83,253	–	168,593
Additions	14,689	5,997	3,126	23,812
Disposals	(1,600)	–	–	(1,600)
As at 31 December 2022	98,429	89,250	3,126	190,805
Accumulated depreciation				
As at 1 January 2022	(50,774)	(41,566)	–	(92,340)
Charge for the year	(12,918)	(13,981)	(608)	(27,507)
Disposals	1,276	–	–	1,276
As at 31 December 2022	(62,416)	(55,547)	(608)	(118,571)
Net book value				
As at 31 December 2022	36,013	33,703	2,518	72,234

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For the six months ended 30 June 2023

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

20 OTHER ASSETS

	As at 30 June 2023	As at 31 December 2022
Interest receivable	2,768,856	2,701,048
Less: ECL allowances	(22,340)	(22,249)
	2,746,516	2,678,799
Other receivables, prepayments and others	3,193,622	2,408,791
Less: ECL allowances	(6)	(6)
	3,193,616	2,408,785
Settlement accounts	3,419,266	1,977,909
Intangible assets (a)	29,031	27,658
	9,388,429	7,093,151

(a) Intangible assets

	Software
Cost	
As at 1 January 2023	44,654
Additions	5,919
As at 30 June 2023	50,573
Accumulated amortization	
As at 1 January 2023	(16,996)
Amortization expenses	(4,546)
As at 30 June 2023	(21,542)
Net book value as at 30 June 2023	29,031

	Software
Cost	
As at 1 January 2022	34,269
Additions	10,385
As at 31 December 2022	44,654
Accumulated amortization	
As at 1 January 2022	(9,925)
Amortization expenses	(7,071)
As at 31 December 2022	(16,996)
Net book value as at 31 December 2022	27,658

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For the six months ended 30 June 2023

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

21 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2023	As at 31 December 2022
Deposits from banks and other financial institutions	15,927,326	34,411,839
Subordinated loan from the ultimate holding company	2,000,000	2,000,000
Financial assets sold under repurchase agreements (Note 31)	10,838,501	21,882,034
Total	28,765,827	58,293,873

On 19 January 2018, the Bank had drawn down a HKD2,000 million Tier 2 subordinated 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 2023	As at 31 December 2022
Demand deposits and current accounts	13,078,418	12,142,424
Saving deposits	64,083,074	63,994,819
Time, call, notice and other deposits	270,300,150	262,081,207
	347,461,642	338,218,450
Including:		
Deposits pledged as collateral	3,582,860	3,349,966

23 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2023	As at 31 December 2022
Derivative financial instruments (Note 16)	3,677,044	1,994,313

24 CERTIFICATES OF DEPOSITS ISSUED

	As at 30 June 2023	As at 31 December 2022
Carried at amortized cost	2,692,745	–
Carried at fair value through profit and loss	3,019,737	1,757,007
	5,712,482	1,757,007

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2023

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

25 DEBT SECURITIES ISSUED

	As at 30 June 2023	As at 31 December 2022
Tier 2 capital bonds	7,834,125	7,797,780

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 2023	As at 31 December 2022
Interest payable	2,728,280	2,630,783
Settlement accounts	974,938	1,235,493
Withholding tax	–	58,419
Provision for ECL allowances on financial guarantee and credit related commitment	15,996	14,964
Others	3,873,968	4,233,319
Total	7,593,182	8,172,978

27 SHARE CAPITAL

	Number of shares	Share capital
As at 31 December 2022, 1 January 2023 and 30 June 2023	37,900,000,000	37,900,000

28 ADDITIONAL EQUITY INSTRUMENT

	As at 30 June 2023	As at 31 December 2022
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\$73,120,000 to the additional equity instrument holders for the period ended 30 June 2023 (30 June 2022: HK\$72,771,000). 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 2023

(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 2023	As at 31 December 2022
Letters of guarantee	36,621	16,321
Letters of credit commitments	401,073	810,900
Acceptances bills	36,317	92,191
Forward forward deposits placed	990,000	–
Credit card commitments	4,747,882	4,849,698
Other credit related commitments		
– Under 1 year	13,377,633	14,207,584
– More than 1 year	14,471,201	11,696,511
	34,060,727	31,673,205

Capital expenditure commitments

	As at 30 June 2023	As at 31 December 2022
Contracted but not provided for	28,573	19,540

Operating lease commitments

As at 30 June 2023, the Bank has non-cancellable operating lease commitments of HK\$2,015,560 (31 December 2022: 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 2023	As at 31 December 2022
Cash and balances with central bank (Note 13)	958,710	2,267,480
Due from and placements with banks and other financial institutions	19,094,427	11,896,842
	20,053,137	14,164,322

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2023

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

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 2023 and 31 December 2022, 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 2023	As at 31 December 2022	As at 30 June 2023	As at 31 December 2022
Investment securities	11,474,068	23,615,867	(10,838,501)	(21,882,034)

32 MATERIAL RELATED PARTY TRANSACTIONS

During the period ended 30 June of 2023, the Bank did not purchase any loans and advances to customers from a branch of the ultimate holding company (30 June 2022: HK\$4,198,945,000).

In addition to the above, all related party transactions that took place for the period ended 30 June 2023 were similar in nature to those disclosed in the 2022 Annual Report. There were no changes in the related party transactions described in the 2022 Annual Report that have had a material effect on the financial position or performance of the Bank for the period ended 30 June 2023.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2023

(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 2023				
	Corporate Banking	Personal Banking	Treasury	Others	Total
External net interest income/(expense)	1,928,468	(2,965,164)	5,268,853	–	4,232,157
Inter-segment net interest income/(expense)	(1,267,470)	4,165,906	(2,898,436)	–	–
Net interest income	660,998	1,200,742	2,370,417	–	4,232,157
Other operating income	188,102	381,941	(448,518)	–	121,525
Total operating income	849,100	1,582,683	1,921,899	–	4,353,682
Change in expected credit losses	(1,909,540)	14,617	(42,966)	(196)	(1,938,085)
Other operating expense					
– Depreciation and amortization	(435)	(86,388)	(46)	(4,887)	(91,756)
– Others	(80,003)	(731,692)	(40,292)	44,024	(807,963)
Profit/(loss) before tax	(1,140,878)	779,220	1,838,595	38,941	1,515,878
Income tax expense	–	–	–	(242,446)	(242,446)
Net profit/(loss) for the period	(1,140,878)	779,220	1,838,595	(203,505)	1,273,432
As at 30 June 2023					
Segment assets	135,311,761	65,483,068	253,242,711	–	454,037,540
Unallocated assets	–	–	–	145,448	145,448
Total assets	135,311,761	65,483,068	253,242,711	145,448	454,182,988
Segment liabilities	(110,402,762)	(240,838,049)	(49,850,905)	–	(401,091,716)
Unallocated liabilities	–	–	–	(432,403)	(432,403)
Total liabilities	(110,402,762)	(240,838,049)	(49,850,905)	(432,403)	(401,524,119)

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2023

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

33 SEGMENTAL ANALYSIS (continued)

	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)

34 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

The bank has no other significant subsequent events.