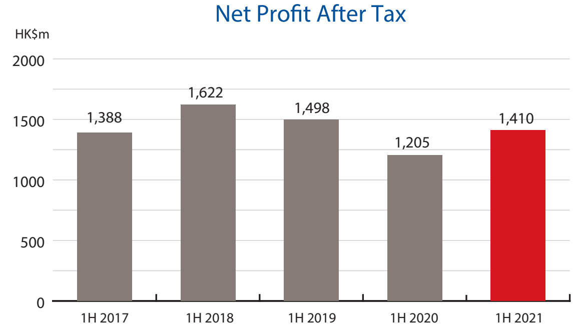
中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

2021 Interim Results Highlights

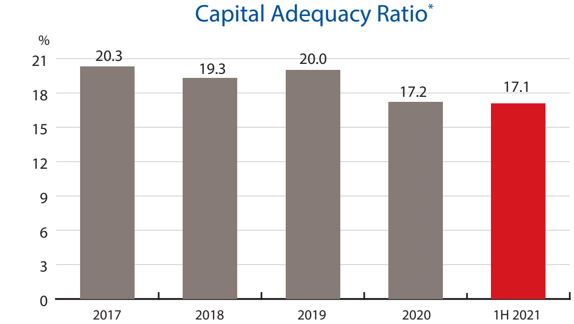
Financial Performance

- **Operating income** rose 11.8% versus the same period last year to reach HK$4.27 billion. **Net interest income** increased by 13.3% year on year to HK$2.85 billion, while **non-interest income** went up 8.9% year on year to reach HK$1.42 billion.
- **Operating expenses** decreased 0.1% year on year, while cost-to-income ratio decreased by 5.1 percentage points year on year to reach 43.3%.
- **Operating profit before impairment** increased by 23.0% year on year to HK$2.42 billion.
- **Impaired loan ratio** as at end-June 2021 was 1.53%, representing a 12 basis points decrease versus that of end-December 2020.
- **Impairment losses** were HK$749.89 million, representing a year-on-year increase of 50.3%.
- **Net profit after tax** was HK$1.41 billion, up 17.0% year on year.
- **Total assets** increased by 3.5% versus end-2020 to HK$406.75 billion. **Customer deposits (including certificates of deposits issued)** increased by 2.6% to HK$317.96 billion while **customer loans (including trade bills)** were up 9.0% to HK$239.86 billion.
- **Capital adequacy ratio** and **CET1 ratio** met regulatory requirements at 17.1% and 12.2% respectively.

Net Profit After Tax



Capital Adequacy Ratio*



* End-of-period figures

Core Businesses

Wholesale Banking business spearheaded business transformation and strengthened overall efficiency at the same time. Customer deposit and loan balances increased by 5.3% and 10.5% respectively as compared to end-2020, while total income went up 5.8% relative to the first half of 2020. Customer base expanded via deepening of relationships with local companies of good credit quality and industry leaders, stronger collaboration with CITIC Group's upstream and downstream customers, as well as the fine-tuning of business referral mechanism with overseas branches and the Group's subsidiary in China. Customer onboarding experience and corporate online banking experience were enhanced in order to increase customer stickiness. Syndicated loans business recorded significant growth, while the Group's ranking in Hong Kong Syndicated Loan MLAB League Table improved from 6th as of 2020 to 1st for the first half of 2021. Internal control mechanisms were also fine-tuned to improve overall efficiency and enhance the integrated customer servicing capabilities.

Treasury and Markets business achieved steady growth in scale and efficiency with total operating income up 17.8% year on year. Active participation of the trading team resulted in the highest market-making trading volume recorded within the past three years and an award from the Bond Connect company as "Outstanding commercial bank" for 2020-2021. The Debt Capital Markets team completed 104 bond issuances for Chinese issuers with an aggregate issuance size of US$35.77 billion, representing a 43.9% year-on-year increase. CNCBI acted as the global coordinator for 59 of such transactions, up 103.4% year on year. According to Bloomberg, CNCBI ranked third amongst all Chinese financial institutions in offshore China USD bond issuance volume. Meanwhile, the Central Treasury Unit successfully guarded against market risks arising from a series of negative China credit events and captured buying opportunities during market volatility.

Personal and Business Banking business recorded an 18.0% year-on-year increase in operating income that was also the highest half-yearly operating income ever achieved, primarily driven by strong momentum from the sale of investment and insurance products. Customer base grew healthily with the number of high-net-worth customers up 37.2% from end-2020. A strategic cooperation agreement was signed with China Mobile Hong Kong Company Limited in February to carry out cross-sector and cross-platform collaboration in a broad spectrum of areas. The inMotion mobile banking platform was further developed with an 82.9% year-on-year increase in the number of inMotion users, while unit trust and securities trading transactions conducted via digital channels rose 68.5% and 47.7% respectively versus the same period in 2020. The second flagship "future branch" was opened in Mongkok in January with different zones catered for different customer segments, providing new customer experiences consisting of integrated online and offline banking services. The Bank continued to provide strong support to various relief measures launched by the HKSAR Government including the "100% Personal Loan Guarantee Scheme" which began accepting applications in April and the "Fight the Virus Together Time-Deposit Offer" rolled out in May to encourage the public to get vaccinated.

中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

CHINA CITIC BANK INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

ANNOUNCEMENT OF 2021 INTERIM RESULTS

The Board of Directors of China CITIC Bank International Limited ("the Bank") is pleased to announce the unaudited consolidated results of the Bank and its subsidiaries ("the Group") for the six months ended 30 June 2021. The interim financial report is unaudited, but has been reviewed by PricewaterhouseCoopers, in accordance with Hong Kong Standards 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 ("HKICPA").

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2021 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2021	2020
	Note	***HK$'000***	*HK$'000*
Interest income	*4(a)*	**3,959,393**	4,980,331
Interest expense	*4(b)*	**(1,111,243)**	(2,467,475)
Net interest income		**2,848,150**	2,512,856
Fee and commission income		**963,395**	788,451
Fee and commission expense		**(71,355)**	(60,198)
Net fee and commission income	*5*	**892,040**	728,253
Net trading income	*6*	**478,876**	542,819
Net hedging loss	*7*	**–**	(1,486)
Net gain on disposal of financial assets at fair value through other comprehensive income	*8*	**31,013**	16,734
Other operating income	*9*	**17,256**	17,212
Operating income		**4,267,335**	3,816,388
Operating expenses	*10*	**(1,846,513)**	(1,847,691)
Operating profit before impairment		**2,420,822**	1,968,697
Expected credit losses on financial assets	*11*	**(763,624)**	(503,191)
Impairment losses reversed on other assets		**13,731**	4,176
Impairment losses		**(749,893)**	(499,015)
Operating profit		**1,670,929**	1,469,682
Net loss on disposal of property and equipment and intangible assets		**(4)**	(343)
Revaluation gain/(loss) on investment properties	*20*	**6,212**	(22,744)
Profit before taxation		**1,677,137**	1,446,595
Income tax	*12*	**(267,096)**	(241,386)
Profit for the period		**1,410,041**	1,205,209
Profit attributable to shareholders		**1,410,041**	1,205,209

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2021 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Profit for the period	**1,410,041**	1,205,209
Other comprehensive income for the period		
Items that will be reclassified subsequently to consolidated income statement when specific conditions are met		
Exchange differences on translation of financial statements of foreign operations	**15,849**	(29,905)
Financial assets at fair value through other comprehensive income		
– change in the fair value of debt instruments	**(169,944)**	227,844
– transfer to income statement on disposal	**(31,013)**	(16,734)
– deferred tax related to the above	**33,286**	(32,893)
– transfer to income statement on impairment	**59,572**	45,413
	(108,099)	223,630
Items that will not be reclassified subsequently to consolidated income statement		
Financial assets at fair value through other comprehensive income		
– change in fair value of equity instruments	**(30,688)**	5,334
– deferred tax related to the above	**5,064**	(880)
	(25,624)	4,454
Property revaluation reserve		
– surplus on revaluation of other premises upon reclassification to investment properties	**–**	58,686
– transfer to deferred tax on disposal	**–**	–
	–	58,686
Other comprehensive (loss)/income for the period	**(117,874)**	256,865
Total comprehensive income for the period	**1,292,167**	1,462,074
Total comprehensive income attributable to shareholders	**1,292,167**	1,462,074

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2021 – unaudited
(Expressed in Hong Kong dollars)

	Note	**At 30 June 2021 *HK$'000***	At 31 December 2020 *HK$'000*
ASSETS			
Cash and balances with banks, central banks and other financial institutions	*13*	**19,204,130**	32,783,916
Placements with and advances to banks, central banks and other financial institutions	*14*	**38,714,203**	28,969,830
Financial assets at fair value through profit or loss	*15(a)*	**6,041,946**	2,649,076
Derivative financial instruments	*16(b)*	**8,712,890**	14,378,601
Loans and advances to customers and other accounts	*17*	**246,353,760**	226,789,958
Financial assets at fair value through other comprehensive income	*18*	**85,558,482**	84,950,868
Amortised cost investments	*19*	**53,356**	48,493
Property and equipment	*20*		
– Investment properties		**261,042**	254,830
– Other premises and equipment		**488,501**	511,806
Right-of-use assets	*21*	**635,984**	696,653
Intangible assets	*22*	**607,325**	635,101
Tax recoverable	*25(a)*	**6,375**	55,449
Deferred tax assets	*25(b)*	**112,986**	174,107
Total assets		**406,750,980**	392,898,688
LIABILITIES AND EQUITY			
Liabilities			
Deposits and balances of banks and other financial institutions		**13,826,071**	5,326,408
Deposits from customers	*23*	**316,484,210**	309,877,016
Financial liabilities at fair value through profit or loss	*15(b)*	**352,398**	290,185
Derivative financial instruments	*16(b)*	**8,500,096**	15,160,283
Certificates of deposit issued	*24*	**1,475,350**	–
Current tax liabilities	*25(a)*	**60,097**	19,656
Deferred tax liabilities	*25(b)*	**1,513**	904
Other liabilities	*26*	**12,882,844**	10,078,174
Lease liabilities		**664,923**	722,894
Loan capital	*27*	**3,864,078**	3,855,374
Total liabilities		**358,111,580**	345,330,894
Equity			
Share capital	*28(a)*	**18,404,013**	18,404,013
Reserves		**22,464,975**	21,393,369
Total shareholders' equity		**40,868,988**	39,797,382
Other equity instruments	*29*	**7,770,412**	7,770,412
Total equity		**48,639,400**	47,567,794
Total equity and liabilities		**406,750,980**	392,898,688

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2021 – unaudited
(Expressed in Hong Kong dollars)

	Share capital	Capital reserve	General reserve	Exchange differences reserve	Property revaluation reserve	Investment revaluation reserve	Statutory reserve	Regulatory general reserve	Retained profits	Total reserves	Other equity instruments	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2021	**18,404,013**	**6,589**	**100,000**	**3,348**	**134,931**	**593,020**	**60,108**	**149,500**	**20,345,873**	**21,393,369**	**7,770,412**	**47,567,794**
Changes in equity for the six months ended 30 June 2021:												
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,410,041**	**1,410,041**	**–**	**1,410,041**
Other comprehensive income for the period	**–**	**–**	**–**	**15,849**	**–**	**(133,723)**	**–**	**–**	**–**	**(117,874)**	**–**	**(117,874)**
Total comprehensive income for the period	**–**	**–**	**–**	**15,849**	**–**	**(133,723)**	**–**	**–**	**1,410,041**	**1,292,167**	**–**	**1,292,167**
Distribution payment for Additional Tier 1 Capital Securities ("AT1 Capital Securities")	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(220,561)**	**(220,561)**	**–**	**(220,561)**
At 30 June 2021	**18,404,013**	**6,589**	**100,000**	**19,197**	**134,931**	**459,297**	**60,108**	**149,500**	**21,535,353**	**22,464,975**	**7,770,412**	**48,639,400**
At 1 January 2020	18,404,013	6,589	100,000	(95,558)	76,245	348,922	59,162	149,500	19,630,889	20,275,749	7,770,412	46,450,174
Changes in equity for the six months ended 30 June 2020:												
Profit for the period	–	–	–	–	–	–	–	–	1,205,209	1,205,209	–	1,205,209
Other comprehensive income for the period	–	–	–	(29,905)	58,686	228,084	–	–	–	256,865	–	256,865
Total comprehensive income for the period	–	–	–	(29,905)	58,686	228,084	–	–	1,205,209	1,462,074	–	1,462,074
Distribution payment for AT1 Capital Securities	–	–	–	–	–	–	–	–	(219,970)	(219,970)	–	(219,970)
At 30 June 2020	18,404,013	6,589	100,000	(125,463)	134,931	577,006	59,162	149,500	20,616,128	21,517,853	7,770,412	47,692,278
At 1 July 2020	18,404,013	6,589	100,000	(125,463)	134,931	577,006	59,162	149,500	20,616,128	21,517,853	7,770,412	47,692,278
Changes in equity for the six months ended 31 December 2020:												
Profit for the period	–	–	–	–	–	–	–	–	(49,392)	(49,392)	–	(49,392)
Other comprehensive income for the period	–	–	–	128,811	–	16,014	–	–	–	144,825	–	144,825
Total comprehensive income for the period	–	–	–	128,811	–	16,014	–	–	(49,392)	95,433	–	95,433
Transfer from retained profits	–	–	–	–	–	–	946	–	(946)	–	–	–
Distribution payment for AT1 Capital Securities	–	–	–	–	–	–	–	–	(219,917)	(219,917)	–	(219,917)
At 31 December 2020	18,404,013	6,589	100,000	3,348	134,931	593,020	60,108	149,500	20,345,873	21,393,369	7,770,412	47,567,794

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2021 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June **2021** *HK$'000*	2020 *HK$'000*
Net cash flows used in operating activities	*30(a)*	**(7,610,457)**	(4,210,293)
Cash flows generated from/(used in) investing activities			
Dividends received from equity instruments		**2,490**	2,890
Proceeds from disposal of property and equipment and intangible assets		**55**	–
Purchase of property and equipment and intangible assets		**(126,205)**	(160,605)
Net cash flows used in investing activities		**(123,660)**	(157,715)
Cash flows generated from/(used in) financing activities			
Payment for redemption of loan capital		**–**	(2,359,017)
Payment for redemption of debt securities		**–**	(3,252,833)
Distribution paid on AT1 Capital Securities		**(220,561)**	(219,970)
Payment of lease liability		**(158,581)**	(152,784)
Interest paid on debt securities issued		**–**	(143,125)
Interest paid on loan capital		**(89,761)**	(171,217)
Net cash flows used in financing activities		**(468,903)**	(6,298,946)
Net decrease in cash and cash equivalents		**(8,203,020)**	(10,666,954)
Cash and cash equivalents at 1 January		**78,305,049**	90,903,199
Exchange differences in respect of cash and cash equivalents (note)		**37,894**	(610,177)
Cash and cash equivalents at 30 June	*30(b)*	**70,139,923**	79,626,068

Note: Exchange differences in respect of cash and cash equivalents previously included as adjustment for non-cash item from operating activities was now separately presented.

NOTES TO THE INTERIM FINANCIAL REPORT – UNAUDITED

(Expressed in Hong Kong dollars unless otherwise indicated)

(1) BASIS OF PREPARATION

The interim financial report of China CITIC Bank International Limited ('the Bank') and all its subsidiaries ('the Group') has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It also contains the disclosure information required under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority ("HKMA"). The interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2020 which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs").

The preparation of the interim financial report that conforms with HKAS 34 requires that management make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates. In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2020.

The financial information relating to the year ended 31 December 2020 that is included in the interim financial report for the six months ended 30 June 2021 as comparative information does not constitute the Group's statutory annual consolidated 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 Group has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Group'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 interim financial report has been prepared in accordance with the accounting policies adopted to be consistent with the 2020 annual financial statements and corresponding interim reporting period, which have been prepared in accordance with Hong Kong Financial Reporting Standards, except for the adoption of new and amended standards as set out below.

(2) NEW AND AMENDED ACCOUNTING STANDARDS ADOPTED BY THE GROUP

The Group has adopted the requirements of 'Interest Rate Benchmark Reform – Phase 2 Amendments to HKFRS 9, HKFRS 7 and HKFRS 16' (IBOR reform Phase 2) which is effective for periods beginning on or after 1 January 2021. This has resulted in additional disclosures as described below (refer to Note 2(a)). Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2021 reporting periods and have not been early adopted by the Group. The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(a) Interbank offer rate (IBOR) reform Phase 2

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free rate (RFR) or alternative benchmark rate.

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

As indicated in the accounting policies, the Group elected, as a policy choice permitted under HKFRS 9, to continue to apply hedge accounting in accordance with HKFRS 9.

IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. For the period ended 30 June 2021, the Group did not enter into any accounting hedge transaction.

(3) SEGMENT REPORTING

Segment information is prepared consistently with reportable segments. Information is regularly reported to the chief operating decision-maker, including management committee members, to allocate resources to the segments and to assess their performance. The Group has identified the following four main reportable segments:

The Group operates a wholesale banking business in Hong Kong and at overseas branches. Wholesale banking mainly comprises corporate lending and syndicated loans, trade financing deposit account services and cash management. Overseas branches include the branches operated overseas and their management office unit in Hong Kong.

Personal and business banking mainly comprises deposit account services, residential mortgages, other consumer lending, credit card services, and Small and Medium Enterprises ("SMEs") banking business, wealth management services and private banking.

Treasury and markets covers the provision of foreign exchange services, money market activities, the management of investment securities and central cash management.

Others mainly comprises unallocated revenue and expenses, corporate expenses and China banking which mainly includes a subsidiary bank in China.

For the purpose of segment reporting, the allocation of operating income reflects the benefits of funding resources allocated to the business segments based on the internal funds transfer pricing mechanism. Cost allocation is based on the direct costs incurred by the respective business segments and the apportionment of overheads on a reasonable basis to the business segments. Rental charges at the market rate for the use of bank premises are reflected as inter-segment income for the 'Others' segment and inter-segment expenses for the respective business segments.

(a) Reportable segments

	Six months ended 30 June 2021				
	Wholesale banking *HK$'000*	Personal and business banking *HK$'000*	Treasury and markets *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Net interest income	**1,562,080**	**832,886**	**334,831**	**118,353**	**2,848,150**
Other operating income/(losses)	**544,230**	**594,719**	**510,714**	**(261,491)**	**1,388,172**
Net gain on disposal of financial assets at fair value through other comprehensive income	**3,025**	**–**	**22,654**	**5,334**	**31,013**
Operating income/(losses)	**2,109,335**	**1,427,605**	**868,199**	**(137,804)**	**4,267,335**
Operating expenses	**(211,520)**	**(473,075)**	**(87,745)**	**(1,074,173)**	**(1,846,513)**
Inter-segment (expenses)/income	**(52,532)**	**(186,474)**	**(45,748)**	**284,754**	**–**
Operating profit/(loss) before impairment	**1,845,283**	**768,056**	**734,706**	**(927,223)**	**2,420,822**
Expected credit losses on financial assets	**(682,283)**	**(3,991)**	**(52,332)**	**(25,018)**	**(763,624)**
Impairment losses reversed on other assets	**–**	**–**	**–**	**13,731**	**13,731**
Operating profit/(loss)	**1,163,000**	**764,065**	**682,374**	**(938,510)**	**1,670,929**
Net loss on disposal of property and equipment	**–**	**(35)**	**–**	**31**	**(4)**
Revaluation gain on investment properties	**–**	**–**	**–**	**6,212**	**6,212**
Profit/(loss) before taxation	**1,163,000**	**764,030**	**682,374**	**(932,267)**	**1,677,137**
Income tax					**(267,096)**
Profit for the period					**1,410,041**
Other segment items:					
Depreciation and amortisation	**16,637**	**10,734**	**99**	**300,061**	**327,531**
	At 30 June 2021				
Other segment items:					
Segment assets	**166,499,710**	**75,084,184**	**171,873,288**	**(6,706,202)**	**406,750,980**
Segment liabilities	**181,733,118**	**159,993,702**	**25,177,836**	**(8,793,076)**	**358,111,580**
Capital expenditure during the period	**2,428**	**11,450**	**94**	**112,233**	**126,205**

(3) SEGMENT REPORTING (CONTINUED)

(a) Reportable segments (continued)

	Six months ended 30 June 2020				
	Wholesale banking *HK$'000*	Personal and business banking *HK$'000*	Treasury and markets *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Net interest income	1,437,228	751,654	114,413	209,561	2,512,856
Other operating income/(losses)	539,500	458,045	630,844	(341,591)	1,286,798
Net gain/(loss) on disposal of financial assets at fair value through other comprehensive income	17,285	–	(8,464)	7,913	16,734
Operating income/(losses)	1,994,013	1,209,699	736,793	(124,117)	3,816,388
Operating expenses	(197,755)	(454,470)	(87,747)	(1,107,719)	(1,847,691)
Inter-segment (expenses)/income	(6,560)	(59,746)	(8,282)	74,588	–
Operating profit/(loss) before impairment	1,789,698	695,483	640,764	(1,157,248)	1,968,697
Expected credit losses on financial assets	(413,613)	(37,886)	(46,510)	(5,182)	(503,191)
Impairment losses reversed on other assets	–	–	–	4,176	4,176
Operating profit/(loss)	1,376,085	657,597	594,254	(1,158,254)	1,469,682
Net loss on disposal of property and equipment	–	(343)	–	–	(343)
Revaluation loss on investment properties	–	–	–	(22,744)	(22,744)
Profit/(loss) before taxation	1,376,085	657,254	594,254	(1,180,998)	1,446,595
Income tax					(241,386)
Profit for the period					1,205,209
Other segment items:					
Depreciation and amortisation	15,469	9,938	1,349	271,947	298,703
	At 31 December 2020				
Other segment items:					
Segment assets	149,287,611	70,215,429	188,380,101	(14,984,453)	392,898,688
Segment liabilities	174,208,724	163,365,046	24,777,321	(17,020,197)	345,330,894
Capital expenditure during the year	12,603	150,067	15,855	206,982	385,507

(3) SEGMENT REPORTING (CONTINUED)

(b) Geographical information

The geographical information analysis is based on the location of the principal operations of the subsidiaries, or in the case of the Bank itself, the location of the branches responsible for reporting the results or booking the assets and liabilities.

	Six months ended 30 June			
	2021	2020	**2021**	2020
	Profit before taxation	Profit/(loss) before taxation	**Operating income/(loss)**	Operating income/(loss)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**1,496,322**	1,495,861	**3,855,626**	3,513,373
Mainland China	**39,904**	22,441	**150,025**	94,759
United States	**72,055**	36,777	**151,674**	108,470
Singapore	**41,533**	(123,412)	**80,121**	71,557
Others	**27,317**	14,897	**45,504**	28,474
Inter-segment items	**6**	31	**(15,615)**	(245)
	1,677,137	1,446,595	**4,267,335**	3,816,388

	At 30 June 2021	At 31 December 2020	**At 30 June 2021**	At 31 December 2020
	Total assets	Total assets	**Total liabilities**	Total liabilities
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**379,562,285**	378,296,661	**331,410,584**	331,157,516
Mainland China	**13,472,875**	11,342,549	**11,934,920**	9,860,818
United States	**16,148,250**	13,972,966	**16,126,050**	13,874,622
Singapore	**18,135,743**	14,155,015	**18,092,343**	14,697,014
Others	**3,033,854**	4,755,024	**2,977,669**	4,701,906
Inter-segment items	**(23,602,027)**	(29,623,527)	**(22,429,986)**	(28,960,982)
	406,750,980	392,898,688	**358,111,580**	345,330,894

(4) INTEREST INCOME AND INTEREST EXPENSE

(a) Interest income

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Listed securities	**561,574**	720,799
Unlisted securities	**144,379**	268,811
Balances and placements with banks and other financial institutions	**55,543**	405,589
Advances and other accounts *(Note)*	**3,197,897**	3,585,132
Interest income on financial assets that are not at fair value through profit or loss	**3,959,393**	4,980,331

Note:

For the period ended 30 June 2021, interest income from impaired financial assets was HK$84,096,000 (six months ended 30 June 2020: HK$50,233,000).

(4) INTEREST INCOME AND INTEREST EXPENSE (CONTINUED)

(b) Interest expense

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Deposits from customers, banks and other financial institutions and others	**1,017,988**	2,232,608
Certificates of deposit issued	**1,113**	13,007
Debt securities issued	**–**	59,195
Loan capital issued	**92,142**	162,665
Interest expense on financial liabilities that are not at fair value through profit or loss	**1,111,243**	2,467,475

(5) NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Fee and commission income		
Bills commission	**36,206**	36,199
Card-related income	**15,209**	15,181
Banking services	**65,624**	70,194
Debt capital markets	**171,488**	202,235
Insurance	**298,788**	225,221
Investment and structured investment products	**183,623**	117,826
Loans, overdrafts and facilities fees	**191,386**	117,143
Others	**1,071**	4,452
	963,395	788,451
Fee and commission expense	**(71,355)**	(60,198)
	892,040	728,253
Of which:		
Net fee and commission income (other than the amounts included in determining the effective interest rate) relating to financial assets and liabilities not at fair value through profit or loss:		
– Fee and commission income	**242,801**	168,523
– Fee and commission expense	**(16,393)**	(11,813)
	226,408	156,710

(6) NET TRADING INCOME

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Net gains from dealing in foreign currencies	**293,510**	363,311
Net losses from financial assets at fair value through profit or loss	**(11,467)**	(14,058)
Net losses from other dealing activities	**(81,911)**	(27,569)
Net interest income on trading activities		
– Listed	**55,794**	57,179
– Unlisted	**222,950**	163,956
	478,876	542,819

(7) NET HEDGING LOSS

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Net hedging loss on fair value hedges		
– Net gain on hedged items attributable to the hedged risk	**–**	59,611
– Net loss on hedging instruments	**–**	(61,097)
	–	(1,486)

(8) NET GAIN ON DISPOSAL OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Net gain on disposal of financial assets at fair value through other comprehensive income	**31,013**	16,734

(9) OTHER OPERATING INCOME

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Dividend income		
– Unlisted investments	**2,490**	2,890
Rental income from investment properties less direct outgoings of HK$88,000 (six months ended 30 June 2020: HK$110,000)	**1,626**	1,509
Other bank service income	**7,662**	7,456
Others	**5,478**	5,357
	17,256	17,212

(10) OPERATING EXPENSES

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
(a) Staff costs		
Salaries and other staff costs	**1,040,765**	1,044,425
Retirement costs	**68,402**	62,164
	1,109,167	1,106,589
(b) Depreciation and amortisation		
Depreciation – property and equipment *(note 20)*	**55,598**	56,173
Depreciation – right-of-use assets *(note 21)*	**150,077**	145,053
Amortisation – intangible assets *(note 22)*	**121,856**	97,477
	327,531	298,703
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)	**179,166**	196,981
Auditors' remuneration	**3,944**	3,536
Advertising	**32,497**	22,982
Communication, printing and stationery	**79,107**	68,799
Electronic data processing	**50,379**	78,933
Legal and professional fees	**29,682**	25,963
Others	**35,040**	45,205
	409,815	442,399
Total operating expenses	**1,846,513**	1,847,691

(11) EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS

Expected credit losses ("ECL") charged/(reversed) on financial assets

	Six months ended 30 June 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Balances with banks, central banks and other financial institutions	**496**	**–**	**–**	**496**
Placements with and advances to banks, central banks and other financial institutions	**(5,755)**	**–**	**–**	**(5,755)**
Loans and advances to customers	**66,770**	**(24,639)**	**685,783**	**727,914**
Other accounts	**(270)**	**–**	**–**	**(270)**
Financial assets at fair value through other comprehensive income	**2,601**	**–**	**56,971**	**59,572**
Amortised cost investments	**4**	**–**	**–**	**4**
Loan commitments and guarantees (included in contingent liabilities and commitments)	**16,673**	**240**	**–**	**16,913**
	80,519	**(24,399)**	**742,754**	**798,874**
Recoveries				**(35,250)**
				763,624

(11) EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS (CONTINUED)

Expected credit losses ("ECL") charged/(reversed) on financial assets (continued)

	Six months ended 30 June 2020			
	Stage 1 *HK$'000*	Stage 2 *HK$'000*	Stage 3 *HK$'000*	Total *HK$'000*
Balances with banks, central banks and other financial institutions	(488)	–	–	(488)
Placements with and advances to banks, central banks and other financial institutions	(2,522)	–	–	(2,522)
Loans and advances to customers	(140,307)	(1,182,700)	1,806,380	483,373
Other accounts	(85)	–	–	(85)
Financial assets at fair value through other comprehensive income	3,318	–	42,095	45,413
Amortised cost investments	34	–	–	34
Loan commitments and guarantees (included in contingent liabilities and commitments)	(132)	–	–	(132)
	(140,182)	(1,182,700)	1,848,475	525,593
Recoveries				(22,402)
				503,191

(12) INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June	
	2021 ***HK$'000***	2020 *HK$'000*
Current tax – Hong Kong Profits Tax		
Provision/(Reversal) for the period	**148,278**	(6,809)
Over-provision in respect of prior periods	**(22,746)**	–
	125,532	(6,809)
Current tax – Overseas		
Provision for the period	**42,669**	42,189
Over-provision in respect of prior periods	**–**	(1,081)
	42,669	41,108
Deferred tax		
Origination of temporary differences (note 25(b))	**98,895**	207,087
	267,096	241,386

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2020: 16.5%) of the estimated assessable profits for the period. Taxation for overseas branches and subsidiaries are charged at the appropriate current rates of taxation in the relevant countries.

(13) CASH AND BALANCES WITH BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Cash in hand	**205,219**	212,198
Balances with central banks	**1,883,707**	1,460,897
Balances with banks	**13,919,641**	30,370,387
Balances with other financial institutions	**3,198,711**	743,085
	19,207,278	32,786,567
Expected credit losses allowances – Stage 1	**(3,148)**	(2,651)
	19,204,130	32,783,916

Included in the balances with central banks are balances subject to exchange control or regulatory restrictions, amounting to HK$715,748,000 at 30 June 2021 (31 December 2020: HK$604,998,000).

(14) PLACEMENTS WITH AND ADVANCES TO BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Placements with banks	**38,000,218**	28,434,834
Advances to banks	**719,194**	545,965
	38,719,412	28,980,799
Expected credit losses allowances – Stage 1	**(5,209)**	(10,969)
	38,714,203	28,969,830
Maturing:		
– Within 1 month	**36,293,703**	28,466,136
– Between 1 month and 1 year	**2,420,500**	503,694
	38,714,203	28,969,830

(15) FINANCIAL ASSETS/(LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Financial assets at fair value through profit or loss

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Debt securities	**3,550,092**	2,351,288
Treasury bills	**2,414,279**	297,788
Certificate of deposits held	**77,575**	–
	6,041,946	2,649,076
Issued by:		
Sovereigns	**4,418,826**	1,314,180
Banks and other financial institutions	**1,249,549**	754,442
Corporate entities	**368,064**	538,656
Public entities	**5,507**	41,798
	6,041,946	2,649,076
Listed	**3,542,186**	2,341,585
Unlisted	**2,499,760**	307,491
	6,041,946	2,649,076

(b) Financial liabilities at fair value through profit or loss

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Short sale of debt securities	**352,398**	290,185

(16) DERIVATIVE FINANCIAL INSTRUMENTS

(a) Notional amounts of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or index. The notional amounts of these instruments indicate the volume of outstanding transactions and do not represent amounts at risk.

The following is a summary of the notional amounts of each significant type of derivative entered into by the Group:

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Currency derivatives		
Forwards	**70,591,181**	60,610,924
Swaps	**1,123,568,828**	728,792,077
Options purchased	**28,384,260**	26,329,946
Options written	**33,617,725**	29,158,079
Interest rate derivatives		
Forwards/Futures	**656,143**	5,488,630
Swaps	**623,827,993**	819,149,400
Options purchased	**3,023,947**	3,019,001
Options written	**3,023,947**	3,019,001
	1,886,694,024	1,675,567,058

Trading includes the Group's principal risk taking positions in financial instruments, positions which arise from the execution of trade orders from customers and market making, and positions taken in order to hedge other elements of the trading book. For the period ended 30 June 2021 and year ended 31 December 2020, there were no derivatives held for hedging.

(b) Fair values of derivatives

	At 30 June 2021		At 31 December 2020	
	Fair value assets *HK$'000*	**Fair value liabilities** *HK$'000*	Fair value assets *HK$'000*	Fair value liabilities *HK$'000*
Currency derivatives	**5,813,328**	**5,685,891**	10,520,010	11,463,378
Interest rate derivatives	**2,899,562**	**2,814,205**	3,858,591	3,696,905
	8,712,890	**8,500,096**	14,378,601	15,160,283

(16) DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(c) Remaining life of derivatives

The following tables provide an analysis of the notional amounts of the Group's derivatives by relevant maturity grouping, based on the remaining periods to settlement at the end of the reporting period:

	At 30 June 2021			
	Notional amounts with remaining life of			
	Total *HK$'000*	**1 year or less** *HK$'000*	**Over 1 year to 5 years** *HK$'000*	**Over 5 years** *HK$'000*
Currency derivatives	**1,256,161,994**	**1,201,383,375**	**53,200,331**	**1,578,288**
Interest rate derivatives	**630,532,030**	**248,100,809**	**348,217,022**	**34,214,199**
	1,886,694,024	**1,449,484,184**	**401,417,353**	**35,792,487**

	At 31 December 2020			
	Notional amounts with remaining life of			
	Total *HK$'000*	1 year or less *HK$'000*	Over 1 year to 5 years *HK$'000*	Over 5 years *HK$'000*
Currency derivatives	844,891,026	793,757,737	49,789,135	1,344,154
Interest rate derivatives	830,676,032	493,134,131	308,706,986	28,834,915
	1,675,567,058	1,286,891,868	358,496,121	30,179,069

(17) LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

(a) Loans and advances to customers and other accounts less expected credit losses

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Gross loans and advances to customers	**239,862,553**	220,096,434
– Expected credit losses allowances	**(2,815,913)**	(2,440,456)
	237,046,640	217,655,978
Other accounts	**9,584,685**	9,385,838
– Expected credit losses allowances	**(277,565)**	(251,858)
	9,307,120	9,133,980
	246,353,760	226,789,958

(17) LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS (CONTINUED)

(b) Loans and advances to customers analysed by industry sectors

The following economic sector analysis is based on the categories and definitions used by the HKMA.

	At 30 June 2021		At 31 December 2020	
	Gross loans and advances to customers ***HK$'000***	**% of gross loans and advances to customers covered by collateral**	Gross loans and advances to customers *HK$'000*	% of gross loans and advances to customers covered by collateral
Industrial, commercial and financial				
– Property development	**9,943,147**	**73**	11,268,407	70
– Property investment	**14,717,134**	**98**	13,460,635	97
– Financial concerns	**12,833,591**	**11**	12,698,994	31
– Stockbrokers	**13,823,076**	**15**	4,044,282	24
– Wholesale and retail trade	**9,323,995**	**89**	9,618,761	81
– Manufacturing	**9,715,705**	**18**	9,762,067	18
– Transport and transport equipment	**2,203,490**	**21**	3,326,439	15
– Recreational activities	**1,579,507**	**3**	1,891,488	3
– Information technology	**3,941,038**	**4**	6,759,381	5
– Others	**15,840,018**	**47**	12,454,426	54
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**24,364**	**100**	25,360	100
– Loans for the purchase of other residential properties	**21,771,559**	**100**	21,168,747	100
– Credit card advances	**430,213**	**–**	434,591	–
– Others	**18,104,818**	**93**	16,152,868	94
Gross loans and advances for use in Hong Kong	**134,251,655**	**61**	123,066,446	64
Trade finance	**6,417,570**	**26**	5,441,544	30
Gross loans and advances for use outside Hong Kong	**99,193,328**	**22**	91,588,444	25
Gross loans and advances to customers	**239,862,553**	**44**	220,096,434	47

(17) LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS (CONTINUED)

(c) Reconciliation of gross carrying amount and ECL allowances for loans and advances to customers and other accounts

	2021							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*
At 1 January 2021	**214,767,888**	**589,755**	**10,495,624**	**577,740**	**3,882,251**	**1,524,819**	**229,145,763**	**2,692,314**
Movements with income statement impact								
Transfer:								
– Transfer to Stage 1	**2,325,480**	**19,500**	**(2,290,332)**	**(19,500)**	**(35,148)**	**–**	**–**	**–**
– Transfer to Stage 2	**(3,247,246)**	**(6,398)**	**3,278,118**	**8,984**	**(30,872)**	**(2,586)**	**–**	**–**
– Transfer to Stage 3	**(98,377)**	**(39)**	**(930,019)**	**(7,480)**	**1,028,396**	**7,519**	**–**	**–**
Net remeasurement of ECL allowances arising from transfer between stage	**–**	**(12,217)**	**–**	**9,956**	**–**	**13,956**	**–**	**11,695**
Net financial assets originated/ (derecognised or repaid)	**21,561,502**	**168,799**	**(754,540)**	**(419)**	**(659,775)**	**(180,186)**	**20,147,187**	**(11,806)**
Changes in risk parameters and model inputs	**–**	**(103,145)**	**–**	**(16,180)**	**–**	**847,080**	**–**	**727,755**
Amounts written-off	**–**	**–**	**–**	**–**	**(338,061)**	**(338,061)**	**(338,061)**	**(338,061)**
Other movements	**–**	**4**	**–**	**–**	**94,626**	**11,577**	**94,626**	**11,581**
At 30 June 2021	**235,309,247**	**656,259**	**9,798,851**	**553,101**	**3,941,417**	**1,884,118**	**249,049,515**	**3,093,478**

Summary of financial assets to which subject to the impairment requirements in HKFRS 9 are applied

	At 30 June 2021							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*
Loans and advances to customers	**226,399,334**	**655,742**	**9,798,851**	**553,101**	**3,664,368**	**1,607,070**	**239,862,553**	**2,815,913**
Other accounts (Note)	**8,909,913**	**517**	**–**	**–**	**277,049**	**277,048**	**9,186,962**	**277,565**
	235,309,247	**656,259**	**9,798,851**	**553,101**	**3,941,417**	**1,884,118**	**249,049,515**	**3,093,478**

(17) LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS (CONTINUED)

(c) Reconciliation of gross carrying amount and ECL allowances for loans and advances to customers and other accounts (continued)

	2020							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*
At 1 January 2020	182,503,311	763,172	12,025,091	1,749,793	2,312,484	1,123,382	196,840,886	3,636,347
Movements with income statement impact								
Transfer:								
– Transfer to Stage 1	7,861,124	32,347	(7,859,868)	(31,091)	(1,256)	(1,256)	–	–
– Transfer to Stage 2	(13,556,823)	(155,896)	14,129,235	237,231	(572,412)	(81,335)	–	–
– Transfer to Stage 3	(130,433)	(269)	(5,888,687)	(1,528,712)	6,019,120	1,528,981	–	–
Net remeasurement of ECL allowances arising from transfer between stage	–	(21,871)	–	371,116	–	448,163	–	797,408
Net financial assets originated/ (derecognised or repaid)	38,090,709	391,564	(1,910,147)	(196,633)	(677,961)	(363,917)	35,502,601	(168,986)
Changes in risk parameters and model inputs	–	(419,292)	–	(23,964)	–	2,259,034	–	1,815,778
Amounts written-off	–	–	–	–	(3,482,743)	(3,482,743)	(3,482,743)	(3,482,743)
Other movements	–	–	–	–	285,019	94,510	285,019	94,510
At 31 December 2020	214,767,888	589,755	10,495,624	577,740	3,882,251	1,524,819	229,145,763	2,692,314

Summary of financial assets to which subject to the impairment requirements in HKFRS 9 are applied

	At 31 December 2020							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*
Loans and advances to customers	205,969,634	588,972	10,495,624	577,740	3,631,176	1,273,744	220,096,434	2,440,456
Other accounts (Note)	8,798,254	783	–	–	251,075	251,075	9,049,329	251,858
	214,767,888	589,755	10,495,624	577,740	3,882,251	1,524,819	229,145,763	2,692,314

Note:

The gross carrying amounts and related ECL allowances have been included the gross carrying amount of loans and advances to customers and other financial assets which are subject to ECL measurements under HKFRS 9. "Other accounts" as included with the "Loans and advances to customers and other accounts" presented within the condensed consolidated balance sheet also include other assets not subject to impairments under HKFRS 9.

(17) LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS (CONTINUED)

(d) Impaired loans and advances to customers

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Gross impaired loans and advances to customers	**3,664,368**	3,631,176
Expected credit losses allowances – Stage 3	**(1,607,070)**	(1,273,744)
	2,057,298	2,357,432
Gross impaired loans and advances as a % of total loans and advances to customers	**1.53%**	1.65%

Impaired loans and advances are individually assessed loans which exhibit objective evidence of impairment on an individual basis.

Collateral amounts of HK$4,284,000,000 (31 December 2020: HK$2,799,388,000) have been taken into account in respect of the assessment of the expected credit losses allowances on impaired loans and advances to customers. Collateral mainly comprises mortgages on residential or commercial properties and cash placed with the Group.

An analysis of impaired loans and advances to customers by individual loan usage, which accounted for 10% or more of the gross loans and advances to customers, is as follows:

	At 30 June 2021			
	Stage 1 ECL allowances *HK$'000*	**Stage 2 ECL allowances** *HK$'000*	**Stage 3 ECL allowances** *HK$'000*	**Impaired loans and advances to customers** *HK$'000*
Gross loans and advances for use outside Hong Kong	**434,683**	**435,415**	**1,481,083**	**2,930,060**

	At 31 December 2020			
	Stage 1 ECL allowances *HK$'000*	Stage 2 ECL allowances *HK$'000*	Stage 3 ECL allowances *HK$'000*	Impaired loans and advances to customers *HK$'000*
Gross loans and advances for use outside Hong Kong	382,154	429,761	981,748	2,679,495

(18) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Debt securities		
– Certificates of deposit held	**5,234,330**	5,179,894
– Treasury bills	**23,003,175**	23,503,712
– Other debt securities	**57,240,941**	56,157,194
	85,478,446	84,840,800
Equity securities	**80,036**	110,068
	85,558,482	84,950,868
Issued by:		
Sovereigns	**27,105,335**	25,390,319
Banks and other financial institutions	**41,858,527**	42,392,498
Corporate entities	**14,394,507**	14,846,212
Public entities	**2,200,113**	2,321,839
	85,558,482	84,950,868
Listed	**51,142,767**	49,755,786
Unlisted	**34,415,715**	35,195,082
	85,558,482	84,950,868

(19) AMORTISED COST INVESTMENTS

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Debt securities		
Treasury bills	**53,360**	48,494
– Expected credit losses allowances – Stage 1	**(4)**	(1)
	53,356	48,493
Issued by:		
Sovereigns	**53,356**	48,493
Unlisted	**53,356**	48,493

(20) PROPERTY AND EQUIPMENT

	Investment properties *HK$'000*	Other premises *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Total *HK$'000*
Cost or valuation:				
At 1 January 2021	**254,830**	**661,671**	**1,100,813**	**2,017,314**
Additions	**–**	**–**	**32,119**	**32,119**
Disposals	**–**	**–**	**(9,110)**	**(9,110)**
Surplus on revaluation	**6,212**	**–**	**–**	**6,212**
Exchange adjustments	**–**	**–**	**211**	**211**
At 30 June 2021	**261,042**	**661,671**	**1,124,033**	**2,046,746**
At 1 January 2020	229,130	666,008	1,038,240	1,933,378
Additions	–	–	127,466	127,466
Reclassification	60,000	(60,000)	–	–
Disposals	–	–	(69,243)	(69,243)
(Deficit)/surplus on revaluation	(34,300)	58,686	–	24,386
Elimination of accumulated depreciation on revaluation	–	(3,023)	–	(3,023)
Exchange adjustments	–	–	4,350	4,350
At 31 December 2020	254,830	661,671	1,100,813	2,017,314
Accumulated depreciation:				
At 1 January 2021	**–**	**370,807**	**879,871**	**1,250,678**
Charge for the period (note 10(b))	**–**	**7,854**	**47,744**	**55,598**
Written back on disposals	**–**	**–**	**(9,051)**	**(9,051)**
Exchange adjustments	**–**	**–**	**(22)**	**(22)**
At 30 June 2021	**–**	**378,661**	**918,542**	**1,297,203**
At 1 January 2020	–	358,085	847,130	1,205,215
Charge for the year	–	15,745	97,713	113,458
Elimination of accumulated depreciation on revaluation	–	(3,023)	–	(3,023)
Written back on disposals	–	–	(68,608)	(68,608)
Exchange adjustments	–	–	3,636	3,636
At 31 December 2020	–	370,807	879,871	1,250,678
Net book value:				
At 30 June 2021	**261,042**	**283,010**	**205,491**	**749,543**
At 31 December 2020	254,830	290,864	220,942	766,636

(20) PROPERTY AND EQUIPMENT (CONTINUED)

Investment properties

All investment properties of the Group were revalued and assessed by the management of the Group at 30 June 2021 with reference to a property valuation report which was conducted by an independent firm of surveyors. The basis of the property valuation is market value, which is consistent with the definition of fair value under HKFRS 13, Fair value measurement. The revaluation surplus of HK$6,212,000 (year ended 31 December 2020: a revaluation deficit of HK$34,300,000; and period ended 30 June 2020: a revaluation deficit of HK$22,744,000) was recognised by the Group and has been credited to the income statement for the period ended 30 June 2021.

(21) RIGHT-OF-USE ASSETS

	Leased premises *HK$'000*	Equipment and others *HK$'000*	Total *HK$'000*
Cost:			
At 1 January 2021	**1,182,297**	**1,170**	**1,183,467**
Additions	**100,679**	**731**	**101,410**
Reductions	**(80,830)**	**–**	**(80,830)**
Adjustments	**(125,487)**	**–**	**(125,487)**
Exchange adjustments	**(514)**	**(24)**	**(538)**
At 30 June 2021	**1,076,145**	**1,877**	**1,078,022**
Cost:			
At 1 January 2020	975,837	1,152	976,989
Additions	304,936	–	304,936
Reductions	(105,908)	–	(105,908)
Exchange adjustments	7,432	18	7,450
At 31 December 2020	1,182,297	1,170	1,183,467
Accumulated depreciation:			
At 1 January 2021	**485,859**	**955**	**486,814**
Charge for the period (note 10(b))	**149,924**	**153**	**150,077**
Reductions	**(80,830)**	**–**	**(80,830)**
Adjustments	**(116,008)**	**–**	**(116,008)**
Exchange adjustments	**2,001**	**(16)**	**1,985**
At 30 June 2021	**440,946**	**1,092**	**442,038**
Accumulated depreciation:			
At 1 January 2020	297,168	314	297,482
Charge for the year	291,148	628	291,776
Reductions	(105,908)	–	(105,908)
Exchange adjustments	3,451	13	3,464
At 31 December 2020	485,859	955	486,814
Net book value:			
At 30 June 2021	**635,199**	**785**	**635,984**
At 31 December 2020	696,438	215	696,653

(22) INTANGIBLE ASSETS

	Software
	HK$'000
Cost:	
At 1 January 2021	**1,636,220**
Additions	**94,063**
Disposals	**(33)**
Exchange adjustments	**(131)**
At 30 June 2021	**1,730,119**
At 1 January 2020	1,380,991
Additions	258,041
Disposals	(5,215)
Exchange adjustments	2,403
At 31 December 2020	1,636,220
Accumulated amortisation:	
At 1 January 2021	**1,001,119**
Charge for the period (note 10(b))	**121,856**
Disposals	**(33)**
Exchange adjustments	**(148)**
At 30 June 2021	**1,122,794**
At 1 January 2020	796,182
Charge for the year	207,597
Disposals	(4,863)
Exchange adjustments	2,203
At 31 December 2020	1,001,119
Net book value:	
At 30 June 2021	**607,325**
At 31 December 2020	635,101

(23) DEPOSITS FROM CUSTOMERS

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Demand deposits and current deposits	**44,450,030**	39,341,433
Savings deposits	**74,627,376**	61,272,117
Time, call and notice deposits	**197,406,804**	209,263,466
	316,484,210	309,877,016

(24) CERTIFICATES OF DEPOSIT ISSUED

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
At amortised cost	**1,475,350**	–

(25) INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Hong Kong Profits Tax	**35,231**	(42,982)
Overseas Taxation	**18,491**	7,189
	53,722	(35,793)
Of which:		
Tax recoverable	**(6,375)**	(55,449)
Current tax liabilities	**60,097**	19,656
	53,722	(35,793)

(25) INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the period are as follows:

	Depreciation allowances in excess of related depreciation *HK$'000*	Impairment allowances for loans and advances *HK$'000*	Revaluation adjustments for properties *HK$'000*	Revaluation adjustments for FVOCI *HK$'000*	Tax losses *HK$'000*	Others *HK$'000*	Total *HK$'000*
Deferred tax arising from:							
At 1 January 2021	**117,322**	**(229,402)**	**904**	**86,069**	**(138,416)**	**(9,680)**	**(173,203)**
Charged/(credited) to income statement *(note 12)*	**(6,143)**	**(7,530)**	**608**	**–**	**112,726**	**(766)**	**98,895**
Credited to reserves	**–**	**–**	**–**	**(38,350)**	**–**	**–**	**(38,350)**
Exchange and other adjustments	**(51)**	**171**	**–**	**–**	**891**	**174**	**1,185**
At 30 June 2021	**111,128**	**(236,761)**	**1,512**	**47,719**	**(24,799)**	**(10,272)**	**(111,473)**
At 1 January 2020	107,026	(454,177)	1,965	43,755	–	(11,594)	(313,025)
Charged/(credited) to income statement	10,350	224,631	(1,061)	–	(136,306)	2,128	99,742
Charged to reserves	–	–	–	42,314	–	–	42,314
Exchange and other adjustments	(54)	144	–	–	(2,110)	(214)	(2,234)
At 31 December 2020	117,322	(229,402)	904	86,069	(138,416)	(9,680)	(173,203)

	At 30 June 2021 ***HK$'000***	At 31 December 2020 *HK$'000*
Net deferred tax assets recognised in the consolidated statement of financial position	**(112,986)**	(174,107)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**1,513**	904
	(111,473)	(173,203)

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$636,000 as at 30 June 2021 (31 December 2020: HK$636,000), as it is improbable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under the current tax legislation.

(26) OTHER LIABILITIES

	At 30 June 2021	At 31 December 2020
	HK$'000	*HK$'000*
Accruals and other payables and provisions	**10,578,194**	7,796,058
Deposit from an immediate holding company	**2,304,650**	2,282,116
	12,882,844	10,078,174

At 30 June 2021, included above is the expected credit losses allowances on loan commitments and guarantees for Stages 1 and 2 amounted to HK$142,435,000 and HK$1,132,000, respectively (31 December 2020: Stage 1: HK$125,762,000 and Stage 2: HK$892,000).

(27) LOAN CAPITAL

	At 30 June 2021	At 31 December 2020
	HK$'000	*HK$'000*
Subordinated notes, at amortised cost:		
US$500 million Subordinated Fixed Rate Notes at 4.625%, due 2029*	**3,864,078**	3,855,374

* Under a US$2 billion Medium Term Note Programme issued in December 2007 ("the Programme") and supplemental offering circulars released in February 2019, the Bank issued subordinated notes on 28 February 2019 with a face value of US$500 million (equivalent to HK$3,925.6 million) and which qualified as Basel III-compliant Tier-2 capital. The notes carry interest at a fixed rate of 4.625% per annum, payable semi-annually until 28 February 2024, and thereafter fixed at the interest rate of the prevailing five-year US Treasury bonds yield plus 2.25% per annum if the notes are not redeemed on the call date. The notes are listed on The Stock Exchange of Hong Kong Limited and mature on 28 February 2029 with an optional redemption date falling on 28 February 2024.

(28) CAPITAL AND RESERVES

(a) Share capital

(i) Ordinary shares

	At 30 June 2021		At 31 December 2020	
	No. of shares	***HK$'000***	*No. of shares*	*HK$'000*
Ordinary shares, issued and fully paid:				
At 1 January/30 June/31 December	**12,111,121,568**	**18,404,013**	12,111,121,568	18,404,013

(ii) Dividend

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

(28) CAPITAL AND RESERVES (CONTINUED)

(b) Nature and purpose of components of reserves

(i) Capital reserve

The capital reserve is not available for distribution to shareholders.

(ii) General reserve

The general reserve was set up from the transfer of retained earnings, and it is available for distribution to shareholders.

(iii) Exchange differences reserve

The exchange differences reserve comprises all foreign exchange differences arising from the translation of the financial statement of foreign operations.

(iv) Property revaluation reserve

The property revaluation reserve is not available for distribution to shareholders because it does not constitute realised profits within the meaning of Part 6 of the new Hong Kong Companies Ordinance (Cap. 622).

(v) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of financial assets at fair value through other comprehensive income held at the end of the reporting period.

(vi) Statutory reserve

Under the relevant legislation of Mainland China, the Bank's wholly-owned PRC subsidiary bank, CITIC Bank International (China) Limited ("CBI (China)") is required to transfer 10% of its profit after taxation to a non-distributable statutory reserve until such reserve has reached 50% of its registered share capital.

(vii) Regulatory general reserve

Pursuant to the banking regulations of Mainland China, CBI (China) is required to set up a regulatory general reserve through a direct transfer from the current year's profit appropriation, as determined based on 1% of the total risk assets at the end of the reporting period to cover its unidentified potential loss exposures. The regulatory general reserve forms part of the equity of the Group.

(viii) Retained profits

A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of impairment losses which the Bank will or may incur on loans and advances. Movements in the reserve are earmarked directly through retained profits and in consultation with the HKMA. At 30 June 2021, HK$2,136,104,000 (31 December 2020: HK$1,926,768,000) was included in retained profits in this respect, which is distributable to equity holders of the Bank subject to consultation with the HKMA.

(29) OTHER EQUITY INSTRUMENTS

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Undated non-cumulative subordinated capital securities with US$500 million*	**3,863,084**	3,863,084
Undated non-cumulative subordinated capital securities with US$500 million**	**3,907,328**	3,907,328
	7,770,412	7,770,412

* Under the Programme and the new and supplemental offering circulars released in August and September 2016, respectively, the Bank priced its US$500 million Basel III compliant Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities with the legal binding subscription agreements signed on 29 September 2016. The AT1 Capital Securities with a face value and principal amount of US$500 million (equivalent to HK$3,877.86 million) are perpetual and listed on The Stock Exchange of Hong Kong Limited, and bear a coupon of 4.25% per annum for the first 5 years from the date of issue to the optional redemption date falling on 11 October 2021. The distribution rate will be reset every five years if the AT1 Capital Securities are not called by the Bank at a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.107% per annum.

According to the terms and conditions, the AT1 Capital Securities confer a right to the holders to receive non-cumulative distributions on the principal amount from, and including, the issue date at the applicable distribution rate, payable semi-annually in arrears on 11 April and 11 October in each year. The Bank may, at its sole discretion, elect to cancel the distribution payment or redeem the AT1 Capital Securities subject to prior written consent of the HKMA. The outstanding amount of AT1 Capital Securities can be written down by the Bank following the occurrence of a non-viability event as defined and set out in the terms and conditions. At the sole discretion of the relevant Hong Kong Resolution Authority following a non-viability event, the outstanding amount of AT1 Capital Securities can be adjusted upon the exercise of Hong Kong Resolution Authority Power in accordance with the Hong Kong Financial Institutions (Resolution) Ordinance (Cap.628). A distribution payment of US$10,625,000 (equivalent to HK$82,700,000) was paid during the period ended 30 June 2021 (for the year ended 31 December 2020: US$21,250,000, equivalent to HK$164,700,000).

** Under the Programme and supplemental offering circulars released in October 2018, the Bank issued the US$500 million Basel III compliant Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities on 6 November 2018. The AT1 Capital Securities with a face value and principal amount of US$500 million (equivalent to HK$3,916.90 million) are perpetual and listed on the Stock Exchange of Hong Kong Limited, and bear a coupon of 7.10% per annum distribution rate until the first call date on 6 November 2023. The distribution rate will be reset every five years if the AT1 Capital Securities are not called by the Bank to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 4.151% per annum.

According to the terms and conditions, the AT1 Capital Securities confer a right to the holders to receive non-cumulative distributions on the principal amount from, and including, the issue date at the applicable distribution rate, payable semi-annually in arrear on 6 May and 6 November in each year. The Bank may, at its sole discretion, elect to cancel the distribution payment or redeem the AT1 Capital Securities subject to prior written consent of the HKMA. The outstanding amount of AT1 Capital Securities can be written down by the Bank following the occurrence of a non-viability event as defined and set out in the terms and conditions. At the sole discretion of the relevant Hong Kong Resolution Authority following a non-viability event, the outstanding amount of AT1 Capital Securities can be adjusted upon the exercise of Hong Kong Resolution Authority Power in accordance with the Hong Kong Financial Institutions (Resolution) Ordinance (Cap.628). A distribution payment of US$17,750,000 (equivalent to HK$137,861,000) was paid during the period ended 30 June 2021 (for the year ended 31 December 2020: US$35,500,000, equivalent to HK$275,187,000).

(30) NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash flows from operating activities

	At 30 June 2021 HK$'000	At 30 June 2020 HK$'000
Operating activities		
Profit before taxation	**1,677,137**	1,446,595
Adjustments for non-cash items:		
Expected credit losses on financial assets	**763,624**	503,191
Impairment losses reversed on other assets	**(13,731)**	(4,176)
Net gain on disposal of financial assets at fair value through other comprehensive income	**(31,013)**	(16,734)
Net loss on disposal of property and equipment and intangible assets	**4**	343
Revaluation (gain)/loss on investment properties	**(6,212)**	22,744
Amortisation of deferred expenses	**52,806**	25,617
Amortisation of intangible assets	**121,856**	97,477
Depreciation on property and equipment	**55,598**	56,173
Depreciation on right-of-use assets	**150,077**	145,053
Dividend income from equity securities	**(2,490)**	(2,890)
Interest expense on loan capital and debt securities issued	**92,142**	221,860
Foreign exchange differences	**(2,974)**	443,123
Operating profit before changes in working capital	**2,856,824**	2,938,376
Net (increase)/decrease in operating assets		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond 3 months	**(1,415,825)**	1,451,000
Treasury bills with original maturity beyond 3 months	**(4,425,529)**	(1,357,247)
Certificates of deposit held with original maturity beyond 3 months	**(235,928)**	765,318
Financial assets at fair value through profit or loss	**(1,198,804)**	(3,161,971)
Derivative financial instruments	**5,665,711**	(4,002,223)
Loans and advances to customers and other accounts	**(20,292,368)**	(6,591,696)
Financial assets at fair value through other comprehensive income	**(1,254,348)**	(3,436,061)
	(23,157,091)	(16,332,880)
Net increase/(decrease) in operating liabilities		
Deposits and balances of banks and other financial institutions	**8,499,663**	8,884,300
Deposits from customers	**6,606,678**	(1,572,327)
Derivative financial instruments	**(6,660,187)**	4,442,328
Certificates of deposit issued	**1,475,350**	(2,913,626)
Other liabilities	**2,846,789**	1,039,863
	12,768,293	9,880,538
Cash flows used in operating activities	**(7,531,974)**	(3,513,966)
Income tax paid		
Hong Kong Profits Tax paid	**(47,317)**	(690,913)
Overseas tax paid	**(31,166)**	(5,414)
Net cash flows used in operating activities	**(7,610,457)**	(4,210,293)
Cash flows from operating activities include:		
Interest received	**4,192,810**	4,757,683
Interest paid	**(1,228,933)**	(2,357,346)

(30) NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Analysis of the balances of cash and cash equivalents

	At 30 June 2021 *HK$'000*	At 30 June 2020 *HK$'000*
Cash and balances with banks, central banks and other financial institutions	**18,491,531**	17,795,745
Placements with and advances to banks, central banks and other financial institutions with original maturity within 3 months	**37,220,534**	49,197,532
Treasury bills and certificates of deposit held with original maturity within 3 months		
– Financial assets at fair value through profit or loss	**1,289,319**	–
– Financial assets at fair value through other comprehensive income	**13,085,179**	12,578,474
– Amotised cost investments	**53,360**	54,317
	70,139,923	79,626,068

(c) Changes in liabilities arising from financing activities

	2021	2020	
	Liabilities from financing activities	Liabilities from financing activities	
	Loan capital *HK$'000*	Debt securities issued *HK$'000*	Loan capital *HK$'000*
At 1 January	**3,855,374**	3,346,067	6,249,182
Redemption	**–**	(3,252,833)	(2,359,017)
Foreign exchange differences	**6,317**	(94,911)	(24,078)
Other non-cash adjustments	**2,387**	1,677	(15,609)
At 30 June	**3,864,078**	–	3,850,478

(31) MATURITY PROFILE

The following maturity profile is based on the remaining period at the end of the reporting period date and the contractual maturity date.

As the trading portfolio may be sold before maturity or deposits from customers mature without being withdrawn, the contractual maturity dates do not represent expected dates of future cash flows.

	At 30 June 2021							
	Total *HK$'000*	**Repayable on demand** *HK$'000*	**Within 1 month** *HK$'000*	**3 months or less but over 1 month** *HK$'000*	**1 year or less but over 3 months** *HK$'000*	**5 years or less but over 1 year** *HK$'000*	**Over 5 years** *HK$'000*	**Undated**[(i)] *HK$'000*
Assets								
Cash and balances with banks, central banks and other financial institutions	19,204,130	18,488,382	–	–	–	–	–	715,748
Placements with and advances to banks, central banks and other financial institutions	38,714,203	–	36,293,703	1,749,775	670,725	–	–	–
Financial assets at fair value through profit or loss	6,041,946	–	3,883	1,300,659	1,345,158	1,929,236	1,463,010	–
Derivative financial instruments	8,712,890	–	2,065,167	1,588,237	1,784,055	2,641,062	634,369	–
Loans and advances to customers and other accounts	246,353,760	1,121,726	30,711,428	22,699,619	66,896,894	88,610,154	28,278,984	8,034,955
Financial assets at fair value through other comprehensive income	85,558,482	–	6,889,328	15,260,235	26,594,934	35,932,809	801,140	80,036
Amortised cost investments	53,356	–	4,852	48,504	–	–	–	–
Tax recoverable	6,375	–	–	–	6,375	–	–	–
Undated assets	2,105,838	–	–	–	–	–	–	2,105,838
Total assets	406,750,980	19,610,108	75,968,361	42,647,029	97,298,141	129,113,261	31,177,503	10,936,577
Liabilities								
Deposits and balances of banks and other financial institutions	13,826,071	1,193,936	9,641,632	1,406,540	1,583,963	–	–	–
Deposits from customers	316,484,210	119,077,406	75,957,517	79,871,266	38,747,352	2,826,269	4,400	–
Financial liabilities at fair value through profit or loss	352,398	–	6	–	–	61,620	290,772	–
Derivative financial instruments	8,500,096	–	2,121,352	1,446,604	1,737,321	2,435,136	759,683	–
Certificate of deposit issued	1,475,350	–	–	388,250	1,087,100	–	–	–
Current tax liabilities	60,097	–	–	–	60,097	–	–	–
Other liabilities	12,882,844	818,075	3,901,610	3,488,457	754,892	722,840	–	3,196,970
Lease liabilities	664,923	–	23,299	46,982	213,940	373,701	7,001	–
Loan capital	3,864,078	–	–	–	–	3,864,078	–	–
Undated liabilities	1,513	–	–	–	–	–	–	1,513
Total liabilities	358,111,580	121,089,417	91,645,416	86,648,099	44,184,665	10,283,644	1,061,856	3,198,483
Asset-liability gap		(101,479,309)	(15,677,055)	(44,001,070)	53,113,476	118,829,617	30,115,647	

(31) MATURITY PROFILE (CONTINUED)

	At 31 December 2020							
	Total	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated[i]
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets								
Cash and balances with banks, central banks and other financial institutions	32,783,916	32,178,918	–	–	–	–	–	604,998
Placements with and advances to banks, central banks and other financial institutions	28,969,830	–	28,466,136	503,694	–	–	–	–
Financial assets at fair value through profit or loss	2,649,076	–	13,145	20,290	392,042	1,093,636	1,129,963	–
Derivative financial instruments	14,378,601	–	3,018,141	2,772,946	4,525,456	3,338,373	723,685	–
Loans and advances to customers and other accounts	226,789,958	1,171,785	24,798,400	17,970,865	70,376,044	77,763,961	25,876,401	8,832,502
Financial assets at fair value through other comprehensive income	84,950,868	–	7,858,746	16,214,941	22,557,650	37,952,546	256,917	110,068
Amortised cost investments	48,493	–	–	48,493	–	–	–	–
Tax recoverable	55,449	–	–	–	55,449	–	–	–
Undated assets	2,272,497	–	–	–	–	–	–	2,272,497
Total assets	392,898,688	33,350,703	64,154,568	37,531,229	97,906,641	120,148,516	27,986,966	11,820,065
Liabilities								
Deposits and balances of banks and other financial institutions	5,326,408	847,661	1,491,891	2,043,233	705,324	238,299	–	–
Deposits from customers	309,877,016	100,613,550	78,002,580	103,879,111	26,577,924	803,851	–	–
Financial liabilities at fair value through profit or loss	290,185	–	–	–	–	111,119	179,066	–
Derivative financial instruments	15,160,283	–	3,712,221	2,911,671	4,618,205	3,016,940	901,246	–
Current tax liabilities	19,656	–	–	–	19,656	–	–	–
Other liabilities	10,078,174	406,513	1,976,112	2,315,199	240,554	–	–	5,139,796
Lease liabilities	722,894	–	21,290	44,872	202,223	438,188	16,321	–
Loan capital	3,855,374	–	–	–	–	3,855,374	–	–
Undated liabilities	904	–	–	–	–	–	–	904
Total liabilities	345,330,894	101,867,724	85,204,094	111,194,086	32,363,886	8,463,771	1,096,633	5,140,700
Asset-liability gap		(68,517,021)	(21,049,526)	(73,662,857)	65,542,755	111,684,745	26,890,333	

Note:

(i) "Undated" assets included loans and advances to customers and other accounts which were overdue and credit-impaired.

(32) MATERIAL RELATED-PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related-party transactions:

(a) Transactions with group companies

During the period, the Group entered into a number of transactions with related parties in the normal course of its banking business including, inter alia, lending, acceptance and placement of inter-bank deposits, and participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The transactions were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the opinion of the Directors, these transactions were conducted under normal commercial terms.

The amount of related-party transactions during the periods and outstanding balances at the end of the period/year are set out below:

	Ultimate holding and intermediate parents		Immediate parent		Fellow subsidiaries		Associates *(note (i))*		Related companies *(note (ii))*	
	Six months ended 30 June									
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest income	**9,247**	36,596	**–**	–	**13,038**	14,262	**14,936**	22,314	**5**	38,275
Interest expense	**(13,093)**	(6,110)	**(4,487)**	(10,300)	**(9,637)**	(21,471)	**(25,774)**	(34,599)	**(1)**	(2,696)
Fee and commission income	**390**	271	**–**	–	**395**	–	**47**	–	**–**	–
Net trading gain/(loss)	**38,605**	11,681	**–**	–	**(45,712)**	21,967	**(32,743)**	(9,586)	**115**	1,046
Operating expenses	**(2,063)**	(1)	**–**	–	**(16,046)**	(4,971)	**(465)**	–	**(1,908)**	–
	At 30 June 2021/31 December 2020									
Assets										
Financial assets at fair value through other comprehensive income	**–**	–	**–**	–	**–**	117,038	**1,074,107**	956,092	**–**	–
Financial assets at fair value through profit or loss	**–**	–	**–**	–	**–**	–	**–**	3,522	**–**	–
Derivative financial instruments	**424,637**	775,480	**–**	–	**36,152**	6,621	**20,622**	13,822	**–**	–
Other receivables	**138,801**	262,443	**–**	–	**4,136**	4,609	**15,941**	11,175	**1,147**	1,137
Liabilities										
Derivative financial instruments	**286,260**	363,927	**–**	–	**–**	27,922	**8,244**	3,202	**–**	–
Other payables	**33,574**	64,996	**1,172**	–	**16,529**	10,355	**4,835**	4,945	**–**	–
Lease payables	**–**	–	**–**	–	**4,202**	–	**–**	–	**13,338**	–
Lending activities:										
At 30 June/31 December	**883,603**	1,111,479	**–**	–	**3,144,229**	1,387,936	**1,385,313**	78,523	**1,958**	1,216
Average for the period/year	**1,413,439**	4,467,183	**–**	–	**1,911,870**	963,090	**514,191**	1,029,184	**2,379**	880,243
Acceptance of deposits:										
At 30 June/31 December	**1,304,205**	5,165,421	**2,293,765**	2,271,114	**7,465,253**	3,726,340	**6,301,803**	6,812,972	**91,869**	133,863
Average for the period/year	**3,683,223**	1,500,471	**2,284,095**	1,933,359	**6,263,903**	5,134,930	**6,774,738**	3,952,402	**106,005**	384,047

(32) MATERIAL RELATED-PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with group companies (continued)

	Ultimate holding and intermediate parents		Immediate parent		Fellow subsidiaries		Associates *(note (i))*		Related companies *(note (ii))*	
	At 30 June 2021/31 December 2020									
Off-statement of financial position items										
Acceptances, guarantees and letters of credit										
– contract amounts payable	**–**	–	**–**	–	**(3,000)**	(3,000)	**–**	–	**–**	–
Other commitments	**–**	–	**–**	–	**698,850**	–	**360,000**	759,000	**–**	–
Derivative financial instruments										
– notional amounts	**53,903,673**	83,480,959	**–**	–	**2,870,302**	2,029,090	**24,794,506**	5,789,552	**–**	–

No impairment allowances were made in respect of the above loans to and placements with related parties.

Note:

(i) Associates of the Group include the associates of the ultimate controlling party and immediate parent respectively.

(ii) Related companies refers to companies which are subsidiaries of shareholders of the intermediate parent and joint venture of the intermediate parent's subsidiaries.

(b) Transactions with key management personnel

All transactions with key management personnel that took place in the first half of 2021 were similar in nature to those disclosed in the 2020 Annual Report. There were no changes in the relevant transactions described in the 2020 Annual Report that have had a material effect on the financial position or performance of the Group in the first half of 2021.

(33) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

(i) Fair value hierarchy

Fair value estimates are generally subjective in nature, and are made at a specific point in time based on the characteristics of the financial instruments and relevant market information. Fair values are determined according to the following fair value hierarchy:

	Fair value measurements as at 30 June 2021 using			
Recurring fair value measurements	**Fair value (Total)** ***HK$'000***	**Quoted prices in active market for identical assets (Level 1)** ***HK$'000***	**Significant other observable inputs (Level 2)** ***HK$'000***	**Significant unobservable inputs (Level 3)** ***HK$'000***
Assets				
Financial assets at fair value through profit or loss				
– Certificates of deposit held	**77,575**	**–**	**77,575**	**–**
– Treasury bills	**2,414,279**	**2,414,279**	**–**	**–**
– Debt securities	**3,550,092**	**3,365,488**	**184,604**	**–**
	6,041,946	**5,779,767**	**262,179**	**–**
Derivative financial instruments				
– Positive fair value of derivatives	**8,712,890**	**907**	**8,711,983**	**–**
Financial assets at fair value through other comprehensive income				
– Certificates of deposit held	**5,234,330**	**909,879**	**4,324,451**	**–**
– Treasury bills	**23,003,175**	**23,003,175**	**–**	**–**
– Debt securities	**57,240,941**	**52,254,305**	**4,982,636**	**4,000**
– Equity securities	**80,036**	**–**	**–**	**80,036**
	85,558,482	**76,167,359**	**9,307,087**	**84,036**
	100,313,318	**81,948,033**	**18,281,249**	**84,036**
Liabilities				
Financial liabilities at fair value through profit or loss				
– Short sales of debt securities	**352,398**	**352,398**	**–**	**–**
Derivative financial instruments				
– Negative fair value of derivatives	**8,500,096**	**2,390**	**8,497,706**	**–**

(33) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy (continued)

	Fair value measurements as at 31 December 2020 using			
Recurring fair value measurements	Fair value (Total) *HK$'000*	Quoted prices in active market for identical assets (Level 1) *HK$'000*	Significant other observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*
Assets				
Financial assets at fair value through profit or loss				
– Treasury bills	297,788	297,788	–	–
– Debt securities	2,351,288	2,279,919	71,369	–
	2,649,076	2,577,707	71,369	–
Derivative financial instruments				
– Positive fair value of derivatives	14,378,601	615	14,377,986	–
Financial assets at fair value through other comprehensive income				
– Certificates of deposit held	5,179,894	475,947	4,703,947	–
– Treasury bills	23,503,712	23,503,712	–	–
– Debt securities	56,157,194	48,308,026	7,845,168	4,000
– Equity securities	110,068	–	–	110,068
	84,950,868	72,287,685	12,549,115	114,068
	101,978,545	74,866,007	26,998,470	114,068
Liabilities				
Financial liabilities at fair value through profit or loss				
– Short sales of debt securities	290,185	288,627	1,558	–
Derivative financial instruments				
– Negative fair value of derivatives	15,160,283	1,034	15,159,249	–

During the period ended 30 June 2021 and year ended 31 December 2020, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy. For transfer in and out of Level 3 measurements see the note 33(a) (iii) below.

(33) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

(ii) Determination of fair value

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 – Quoted (unadjusted) market price in active markets for identical instruments at the measurement date.

Level 2 –

(i) Quoted market price for identical or similar instruments that are not active;

(ii) Valuation techniques based on observable inputs, either directly or indirectly, where all significant inputs are observable from market data. This category includes financial instruments with quoted prices in active markets for similar instruments; or quoted prices in markets that are considered less than active for identical or similar instruments.

Level 3 – Valuation techniques using significant unobservable inputs where the valuation techniques include one or more significant inputs that are unobservable. This category includes financial instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using valuation techniques. Valuation techniques include net present value, discounted cash flow models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other parameters used in estimating discount rates, bond price and foreign currency exchange rates.

The most common valuation techniques applied by the Group to determine the fair value of financial instruments are from interest rates and currency swaps, which are observable market data with high reliability and do not require the significant involvement of management's judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter ("OTC") derivatives like interest rate swaps. However, the availability of observable market prices and inputs varies depending on the products and markets, and is prone to changes based on specific events and general conditions in the financial markets.

Certain financial instruments need to be employed with valuation techniques where one or more significant market inputs involved are not observable. Examples of these financial instruments are structured investments, OTC structured derivatives and certain securities for which there is no active market. For valuation models involving significant unobservable inputs, a high degree of management judgement or estimation is required to select the appropriate valuation model, determine the expected future cash flows on the financial instruments being valued, determine the probability of counterparty default and prepayments, and select the appropriate discount rates.

(33) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

(iii) Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Debt securities	Discounted cash flow model	Forecasted cash flows and estimated risk-free rate	Significant increase in the estimated risk-free rate would result in a lower fair value
Equity securities	Dividend growth model	Forecasted dividend and estimated risk-free rate	Refer to sensitivity analysis in note 33(a)(iv)

Note:

Both of debt and equity securities under level 3 fair value measurements are generally classified as financial assets at fair value through other comprehensive income and are not traded in the active market, accordingly, the fair value is estimated by reference to common market valuation models.

The following table shows a reconciliation between the opening and the closing balance of fair value measurements in Level 3 of the fair value hierarchy:

	At 30 June 2021		
	Financial assets at fair value through other comprehensive income		Total
Assets	**Debt securities** *HK$'000*	**Equity securities** *HK$'000*	*HK$'000*
At 1 January 2021	**4,000**	**110,068**	**114,068**
Purchases	–	673	673
Transfer from level 1	23,383	–	23,383
Gains less losses from dealing in foreign currencies	25	(17)	8
Changes in fair value recognised in other comprehensive income	(23,408)	(30,688)	(54,096)
At 30 June 2021	**4,000**	**80,036**	**84,036**
Total gains/(losses) for the period included in the income statement for assets held at the end of the reporting period recorded in:			
– Gains/(losses) from dealing in foreign currencies	25	(17)	8
Total losses recognised in other comprehensive income	(23,408)	(30,688)	(54,096)

(33) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

(iii) Information about Level 3 fair value measurements (continued)

	At 31 December 2020		
	Financial assets at fair value through other comprehensive income		Total
	Debt securities	Equity securities	
Assets	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2020	4,000	108,336	112,336
Transfer from Level 2	40,843	–	40,843
Gains recognised in the income statement	–	46	46
Change in fair value recognised in other comprehensive income	(40,843)	1,686	(39,157)
At 31 December 2020	4,000	110,068	114,068
Total gains for the year included in the income statement for assets held at the end of the reporting period recorded in:			
– Gains from dealing in foreign currencies	–	46	46
Total (losses)/gains recognised in other comprehensive income	(40,843)	1,686	(39,157)

(33) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

(iv) Sensitivity of fair values to reasonably possible alternative assumptions

For the level 3 financial assets at fair value through other comprehensive income (equity securities), its fair value is measured by using a valuation model to incorporate assumptions that are not based on observable market data. The following table shows the sensitivity of level 3 fair value measurements on the equity securities measured at fair value through other comprehensive income. The basis of 10% change in reasonably possible alternative assumptions on risk-free rate will determine the favourable and unfavourable changes on the fair value measurements. For level 3 debt securities, no sensitivity analysis is provided as the impact is considered immaterial.

	At 30 June 2021			
	Effect on income statement		**Effect on other comprehensive income**	
	Favourable *HK$'000*	**(Unfavourable)** *HK$'000*	**Favourable** *HK$'000*	**(Unfavourable)** *HK$'000*
Assets				
Financial assets at fair value through other comprehensive income				
– Equity securities	**–**	**–**	**5,607**	**(5,098)**

	At 31 December 2020			
	Effect on income statement		Effect on other comprehensive income	
	Favourable *HK$'000*	(Unfavourable) *HK$'000*	Favourable *HK$'000*	(Unfavourable) *HK$'000*
Assets				
Financial assets at fair value through other comprehensive income				
– Equity securities	–	–	8,618	(7,835)

(b) Fair values of financial instruments not measured at fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair value at 30 June 2021 and 31 December 2020 unless otherwise stated.

(i) Financial assets not measured at fair value

The Group's financial assets mainly include cash; placements with banks, central banks and other financial institutions; loans and advances to customers; investments; and financial derivative instruments.

The fair values of placements with banks, central banks and other financial institutions are mainly priced at market interest rates, and mature within one year. Accordingly, the carrying values approximate the fair value.

The fair values of loans and advances to customers, taking into account the relevant market interest rates and being mostly priced at floating rates close to the market interest rate which are mainly repriced within 3 months, approximately equals their carrying amount.

(33) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Fair values of financial instruments not measured at fair value (continued)

(ii) Financial liabilities not measured at fair value

All financial liabilities are stated at fair value or carried at amounts not materially different from their fair values at 30 June 2021 and 31 December 2020, except for loan capital which is shown below:

	At 30 June 2021				
	Carrying amount *HK$'000*	**Fair value** *HK$'000*	**Level 1** *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*
Financial liabilities					
Loan capital	**3,864,078**	**4,160,691**	**4,160,691**	**–**	**–**

	At 31 December 2020				
	Carrying amount *HK$'000*	Fair value *HK$'000*	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*
Financial liabilities					
Loan capital	3,855,374	4,116,794	4,116,794	–	–

(34) ASSETS PLEDGED AS SECURITY

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Assets pledged as security		
Financial assets at fair value through other comprehensive income pledged as statutory deposits *(Note 1)*	**201,705**	92,980
Financial assets at fair value through other comprehensive income pledged for own liabilities *(Note 2)*	**1,511,600**	–
	1,713,305	92,980

Note:

(1) The assets were pledged as statutory deposits by the overseas branches of the Bank to the Office of the Comptroller of the Currency in the United States.

(2) At 30 June 2021, the assets were pledged as "collateral" under the sale and repurchase transactions for the secured liabilities of HK$1,389,816,000 which were included in other liabilities.

(35) CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

(a) Contingent liabilities and commitments to extend credit

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment:

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Direct credit substitutes	**1,170,496**	482,575
Transaction-related contingencies	**758,987**	977,663
Trade-related contingencies	**6,946,699**	5,871,861
Forward forward deposits placed	**5,683,200**	12,920,238
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**86,225,335**	89,362,475
– with an original maturity of not more than 1 year	**4,332,078**	4,017,915
– with an original maturity of more than 1 year	**8,999,847**	4,511,472
	114,116,642	118,144,199
Credit risk-weighted amounts	**9,198,648**	7,254,665

Contingent liabilities and commitments are credit-related instruments, which include forward forward deposits placed, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows.

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (31 December 2020: 0% to 150%).

(b) Capital commitments

Capital commitments mainly for projects and the purchase of equipment outstanding at 30 June 2021 not provided for in the financial statements are as follows:

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Authorised and contracted for	**140,735**	177,150

(c) Contingent liability in respect of legal claim

The Group is not involved in any legal action that would be significant to the financial position of the Group as at 30 June 2021 and 31 December 2020.

(36) NON-ADJUSTING POST BALANCE SHEET EVENT

The Bank issued a US$600 million Basel III compliant Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities on 29 July 2021. The AT1 Capital Securities with a face value and principal amount of US$600 million are perpetual and listed on the Stock Exchange of Hong Kong Limited, and bear a coupon of 3.5% per annum.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

The unaudited supplementary financial information set out in note (C) to (J) below mainly covered additional detailed financial information on customers loans and advances and risk management. Information was largely prepared in accordance with the basis and requirements for regulatory reporting purpose, and compiled based on the books and records of the Bank and banking returns submitted to the HKMA. Certain comparatives have been revised in order to align with the latest books and records and banking returns submitted to the HKMA.

(A) SUMMARY OF FINANCIAL POSITION

At period-ended/year-ended	**30 June 2021** *HK$'000*	31 December 2020 *HK$'000*
Loans and advances to customers	**239,862,553**	220,096,434
Expected credit losses on loans and advances to customers	**2,815,913**	2,440,456
Total assets	**406,750,980**	392,898,688
Total customers deposits	**317,959,560**	309,877,016
Total equity	**48,639,400**	47,567,794
Financial ratios		
Common Equity Tier 1 ("CET1") capital ratio	**12.2%**	12.3%
Tier 1 capital ratio	**14.8%**	14.8%
Total capital ratio	**17.1%**	17.2%
Loans to deposits	**75.4%**	71.0%
Loans to total assets	**59.0%**	56.0%
Average liquidity coverage ratio (for the half-year ended)	**236.9%**	248.2%
Cost to income (for the half-year ended)	**43.3%**	48.4%

(B) REGULATORY DISCLOSURE STATEMENTS AVAILABLE ON THE BANK'S CORPORATE WEBSITE

The Group's regulatory disclosure information is published by using standard disclosure templates as specified by the HKMA ('Regulatory Disclosure Statement') and that can be viewed in the Regulatory Disclosures section of our Bank's corporate website www.cncbinternational.com. The Bank's Regulatory Disclosure Statement, together with the disclosures in the interim report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(C) CAPITAL ADEQUACY

(i) Capital base

Capital adequacy ratios ("CAR") comply with the Banking (Capital) Rules issued by the HKMA. The CAR are computed on a consolidated basis covering the Bank and some of its subsidiaries as required by the HKMA. The Bank has adopted the "standardised approach" for calculating the risk-weighted amount for credit risk and market risk and the "basic indicator approach" for calculating operational risk.

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Common Equity Tier 1 ("CET1") capital instruments and reserves		
Directly issued qualifying CET1 capital instruments plus any related share premium	**18,404,013**	18,404,013
Retained earnings	**21,616,754**	20,416,204
Disclosed reserves	**931,528**	1,050,761
CET1 capital before regulatory deductions	**40,952,295**	39,870,978
CET1 capital: regulatory deductions		
Deferred tax assets net of deferred tax liabilities	**112,986**	174,107
Other intangible assets (net of related deferred tax liability)	**607,325**	635,101
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	**180,035**	173,822
Regulatory reserve for general banking risks	**2,136,104**	1,926,768
Valuation adjustments	**18,235**	26,117
Debit valuation adjustments in respect of derivative contracts	**162**	2,330
Total regulatory deductions to CET1 capital	**3,054,847**	2,938,245
CET1 capital	**37,897,448**	36,932,733
Additional Tier 1 ("AT1") capital		
Additional Tier 1 capital	**7,772,060**	7,772,060
Tier 1 capital	**45,669,508**	44,704,793
Tier 2 capital instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	**3,882,500**	3,876,149
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	**81,016**	78,220
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**3,404,458**	3,234,537
Tier 2 capital base before deductions	**7,367,974**	7,188,906
Tier 2 capital: regulatory deductions		
Regulatory deductions to Tier 2 capital	**–**	–
Tier 2 capital	**7,367,974**	7,188,906
Total capital	**53,037,482**	51,893,699

(ii) Risk-weighted amount

– Credit risk	**278,863,245**	270,817,417
– Market risk	**15,709,538**	15,412,575
– Operational risk	**14,983,338**	15,048,263
	309,556,121	301,278,255

(C) CAPITAL ADEQUACY (CONTINUED)

(iii) Capital adequacy ratios

	At 30 June 2021	At 31 December 2020
– CET1 capital ratio	**12.2%**	12.3%
– Tier 1 capital ratio	**14.8%**	14.8%
– Total capital ratio	**17.1%**	17.2%

(iv) Capital instruments

The following is a summary of the Group's CET1, AT1 capital securities and Tier 2 capital instruments.

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
CET1 capital instruments issued by the Bank		
Ordinary shares:		
12,111,121,568 issued and fully paid ordinary shares	**18,404,013**	18,404,013

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Additional Tier 1 Capital Securities		
Undated non-cumulative subordinated capital securities with US$500 million (issued in 2016)	**3,863,084**	3,863,084
Undated non-cumulative subordinated capital securities with US$500 million (issued in 2018)	**3,907,328**	3,907,328
	7,770,412	7,770,412

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Tier 2 capital instruments		
Issued by the Bank		
– US$500 million Subordinated Fixed Rate Notes at 4.625% (due in 2029)	**3,864,078**	3,855,374

(C) CAPITAL ADEQUACY (CONTINUED)

(v) Basis of consolidation

Unless otherwise stated, all financial information contained in the interim financial report is prepared according to the consolidation basis for accounting purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank and all its subsidiaries whereas the latter includes the Bank and only some of the Group's subsidiaries, which are discussed as follows:

The Bank is required under section 3C(1) of the Banking (Capital) Rules to calculate its total capital on a consolidated basis in respect of the following subsidiaries:

		At 30 June 2021	
Names of subsidiaries	**Principal activities**	**Total assets** *HK$'000*	**Total equity** *HK$'000*
Carford International Limited	Property holding	**41,479**	**18,565**
CITIC Bank International (China) Limited	Banking	**12,978,491**	**1,604,284**
CITIC Insurance Brokers Limited	Insurance broker	**520,184**	**508,129**
HKCB Finance Limited	Consumer financing	**6,200,474**	**649,369**
Ka Wah International Merchant Finance Limited	Inactive	**2,160**	**2,160**
The Ka Wah Bank (Trustee) Limited	Trustee services	**3,685**	**3,685**

Subsidiaries not included in consolidation for regulatory purposes are mainly nominee services companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Banking (Capital) Rules and the Banking Ordinance. The following subsidiaries are deducted from the Bank's capital base under Part 3 of the Banking (Capital) Rules:

		At 30 June 2021	
Names of subsidiaries	**Principal activities**	**Total assets** *HK$'000*	**Total equity** *HK$'000*
The Hongkong Chinese Bank (Nominees) Limited	Nominee services	**3**	**(1)**
The Ka Wah Bank (Nominees) Limited	Nominee services	**3,797**	**46**
Security Nominees Limited	Nominee services	**–**	**–**
Sino-Allied Development Limited	Inactive	**10**	**10**
CNCBI Investment Holdings Limited	Investment holding	**602,419**	**473,828**
CNCBI Asset Management Limited	Asset management	**21,006**	**19,397**
CNCBI Financial Consultant Limited	Not yet commenced business	**909**	**(5,549)**
Prosperous Century Global Bond Fund SP (held through Prosperous Century Global Investment Fund SPC)	Investment fund	**278,991**	**255,007**
Prosperous Century High Yield Bond Fund SP (held through Prosperous Century Global Investment Fund SPC)	Investment fund	**294,352**	**277,617**
China CITIC Bank International Asset Management (Shenzhen) Limited	Asset management	**–**	**–**

At 30 June 2021, no subsidiaries were included within both the accounting scope of consolidation and the regulatory scope of consolidation but for which the method of consolidation differs.

There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation.

(D) SEGMENTAL INFORMATION ON LOANS AND ADVANCES TO CUSTOMERS – BY GEOGRAPHICAL AREAS

	At 30 June 2021					
	Loans and advances to customers *HK$'000*	**Overdue loans and advances to customers** *HK$'000*	**Impaired loans and advances to customers** *HK$'000*	**Stage 1 ECL allowances** *HK$'000*	**Stage 2 ECL allowances** *HK$'000*	**Stage 3 ECL allowances** *HK$'000*
Hong Kong	**156,355,490**	**3,189,835**	**3,303,687**	**300,926**	**25,686**	**1,553,966**
Mainland China	**50,318,113**	**–**	**294,407**	**209,201**	**93,940**	**–**
United States	**9,527,172**	**–**	**–**	**34,737**	**–**	**–**
Singapore	**4,330,354**	**–**	**–**	**36,615**	**5,674**	**–**
Others	**19,331,424**	**66,274**	**66,274**	**74,263**	**427,801**	**53,104**
	239,862,553	**3,256,109**	**3,664,368**	**655,742**	**553,101**	**1,607,070**

	At 31 December 2020					
	Loans and advances to customers *HK$'000*	Overdue loans and advances to customers *HK$'000*	Impaired loans and advances to customers *HK$'000*	Stage 1 ECL allowances *HK$'000*	Stage 2 ECL allowances *HK$'000*	Stage 3 ECL allowances *HK$'000*
Hong Kong	134,288,116	3,153,773	3,267,687	252,699	62,140	1,047,332
Mainland China	49,681,995	–	–	193,368	515,386	–
United States	9,276,279	–	–	26,765	–	–
Singapore	4,693,656	–	–	28,675	5	–
Others	22,156,388	363,489	363,489	87,465	209	226,412
	220,096,434	3,517,262	3,631,176	588,972	577,740	1,273,744

The above geographical analysis is classified by the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor.

Overdue loans and advances are loans that have been overdue for more than three months.

Impaired loans and advances are individually assessed loans which exhibit objective evidence of impairment on an individual basis.

(E) OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	At 30 June 2021		At 31 December 2020	
	HK$'000	**% of total loans and advances to customers**	*HK$'000*	% of total loans and advances to customers
The gross amount of loans and advances has been overdue for periods of:				
– 6 months or less but over 3 months	**84,671**	**0.04**	66,950	0.03
– 1 year or less but over 6 months	**61,875**	**0.03**	2,610,339	1.19
– over 1 year	**3,109,563**	**1.30**	839,973	0.38
	3,256,109	**1.37**	3,517,262	1.60
Secured overdue loans and advances	**2,734,965**		2,729,091	
Unsecured overdue loans and advances	**521,144**		788,171	
	3,256,109		3,517,262	
Market value of collateral held against the secured overdue loans and advances	**2,985,938**		2,995,913	
Expected credit losses allowances	**1,593,639**		1,244,814	

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the period end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Eligible collateral held in respect of the overdue loans and advances, is "Eligible Physical Collateral" which mainly comprises real estate properties. The eligible collateral should generally satisfy the following:

(a) The market value of the asset should be readily determinable or can be reasonably established and verified.

(b) The asset is marketable and there exists a readily available secondary market for disposing of the asset.

(c) The Bank's right to repossess the asset is legally enforceable and without impediment.

(d) The Bank is able to secure control over the asset if necessary.

There were no advances to banks and other financial institutions which were overdue for over three months at 30 June 2021 and 31 December 2020 respectively.

(F) RESCHEDULED LOANS

	At 30 June 2021		At 31 December 2020	
	HK$'000	**% of total loans and advances to customers**	*HK$'000*	% of total loans and advances to customers
Rescheduled loans	**4,433**	**0.002**	4,903	0.002

Rescheduled loans are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled loans to customers are stated net of any advances that have subsequently become overdue for over three months and are reported as overdue advances in note (E).

There were no advances to banks and other financial institutions which were rescheduled at 30 June 2021 and 31 December 2020 respectively.

(G) REPOSSESSED ASSETS

	At 30 June 2021 ***HK$'000***	At 31 December 2020 *HK$'000*
Included in loans and advances to customers and other accounts	**81,167**	54,166

The amount represented the estimated market value of the repossessed assets at 30 June 2021 and 31 December 2020 respectively.

(H) INTERNATIONAL CLAIMS

International claim refers to the sum of cross-border claims in all currencies and local claims in foreign currencies determined as based on the calculation methodology specified in the HKMA's Return of International Banking Statistics. International claims are on-balance sheet exposures of counterparties which attributable to the country or segment, after taking into account risk recognised transfer, constitute to not less than 10% of the aggregate claims are shown as follows:

	At 30 June 2021				
			Non-bank private sector		
	Banks	**Official Sector**	**Non-bank financial institutions**	**Non-financial private sector**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Developed countries	**32,660,847**	**1,299,747**	**1,870,534**	**9,501,991**	**45,333,119**
Offshore centres	**8,713,819**	**54,156**	**14,690,965**	**54,302,072**	**77,761,012**
of which Hong Kong	**3,555,733**	**53,718**	**13,240,775**	**43,109,715**	**59,959,941**
Developing Asia-Pacific	**34,388,651**	**10,455,032**	**9,579,889**	**50,903,217**	**105,326,789**
of which Mainland China	**30,712,701**	**10,442,438**	**9,062,278**	**47,610,014**	**97,827,431**

	At 31 December 2020				
			Non-bank private sector		
	Banks	Official Sector	Non-bank financial institutions	Non-financial private sector	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Developed countries	39,453,287	12,547	1,881,172	9,299,523	50,646,529
Offshore centres	6,601,830	57,092	12,705,306	51,303,818	70,668,046
of which Hong Kong	2,299,845	56,694	11,951,907	35,930,168	50,238,614
Developing Asia-Pacific	31,866,827	6,025,006	9,943,862	52,293,741	100,129,436
of which Mainland China	27,800,973	6,012,021	9,421,396	49,363,211	92,597,601

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(I) MAINLAND ACTIVITIES

Mainland Activities are Mainland China exposures to non-bank counterparties and their categories and the type of direct exposures defined by the HKMA's Return of Mainland Activities.

		At 30 June 2021		
		On-statement of financial position exposure *HK$'000*	**Off-statement of financial position exposure** *HK$'000*	**Total** *HK$'000*
(1)	Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	**42,641,633**	**2,565,010**	**45,206,643**
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	**15,352,719**	**1,428,362**	**16,781,081**
(3)	PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**72,293,986**	**6,242,056**	**78,536,042**
(4)	Other entities of central government not reported in item 1 above	**6,899,520**	**359,410**	**7,258,930**
(5)	Other entities of local governments not reported in item 2 above	**814,396**	**431,214**	**1,245,610**
(6)	PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**17,990,022**	**1,709,977**	**19,699,999**
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**10,287,562**	**376,363**	**10,663,925**
Total		**166,279,838**	**13,112,392**	**179,392,230**
Total assets after provision		**386,515,222**		
On-balance sheet exposures as percentage of total assets		**43.0%**		

		At 31 December 2020		
		On-statement of financial position exposure *HK$'000*	Off-statement of financial position exposure *HK$'000*	Total *HK$'000*
(1)	Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	43,823,286	1,574,677	45,397,963
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	13,544,993	1,137,829	14,682,822
(3)	PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	61,145,868	6,897,397	68,043,265
(4)	Other entities of central government not reported in item 1 above	7,734,779	49,607	7,784,386
(5)	Other entities of local governments not reported in item 2 above	1,069,403	25,591	1,094,994
(6)	PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	17,851,446	1,058,969	18,910,415
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	9,690,212	56,884	9,747,096
Total		154,859,987	10,800,954	165,660,941
Total assets after provision		379,702,621		
On-balance sheet exposures as percentage of total assets		40.8%		

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(J) RISK MANAGEMENT

The Group manages its risks under the oversight of the Board of Directors and its delegated committees. The Risk Management Group ("RMG") has been entrusted with the ongoing responsibilities of driving and implementing the Group's risk management framework and governance encompassing the identification, quantification, monitoring, reporting, and mitigation of the risks to which the Group is exposed.

The Group adopts the Standardised Approach for credit and market risk measurement, and the Basic Indicator Approach for operational risk measurement. The Group has established policies, procedures and processes to identify and set appropriate risk limits, as well as to analyse, control and monitor these risks. The Group continually strives to enhance its risk management framework and infrastructure in keeping with the market, product offerings and international best practices. The Group's internal auditor performs regular independent audits to ensure due compliance with internal policies and regulatory requirements.

The Group manages the following main types of risk:

(a) Credit risk management

Credit risk is the risk of financial loss due to the failure of a customer or counterparty to fulfill its contractual obligations. Credit exposure principally arises in loans and advances, debt securities, treasury bills and trading derivatives, as well as in the credit risk from financial arrangements in off-balance sheet financial positions such as loan commitments. The Group has developed standards, policies and procedures to measure, monitor and mitigate the risk of its lending business. The policies and procedures are reviewed as required, to respond quickly to the changing market environment and to better reflect the risk factors for the Group's credit considerations.

Throughout the first half of 2021, the Group continues to enhance its risk management framework and internal control practices by solidifying its three lines of defence, promoting risk culture and reviewing its risk appetite and policies to ensure its compliance with regulatory requirements. Various risk management enhancement projects and initiatives are underway to keep pace with the evolving regulatory landscape and increasingly stringent regulatory requirements. These projects included Initial Margin Standard for non-centrally cleared over-the-counter derivatives, Standardized Approach to Counterparty Credit Risk, and Basel III reform on the calculation of risk-weighted assets for credit risk. Furthermore, the Group continues to enhance the existing risk governance, risk limit control process, reporting, disclosure and variance analysis on its risk framework and metrics.

Credit risk is controlled and managed by the Risk Management Group ("RMG") under the oversight of the Credit Committee, and is reported to the Credit & Risk Management Committee ("CRMC") at the board level on a quarterly basis. These committees provide appropriate oversight of the Group's risk management practices by defining the Group's policies and risk appetite, and providing the RMG with the means to implement measures to mitigate credit risk arising from the Group's adopted strategy.

Credit risk embedded in products is identified and measured in product programmes and on-going review and assessment process. Credit risk pertaining to individual customers is identified and measured by credit officers utilising internal risk rating models. Credit applications are approved by credit officers under delegated authorities or by the Credit Committee.

The Group mitigates credit risk by taking collateral and entering into offsetting or netting agreements with borrowers and counterparties, as the case may be, should such clauses and agreements be legally established and enforceable.

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instruments is diversified among industry and product sectors.

Credit risk for treasury transactions is managed in the same way as the Group manages its corporate risk. Risk grading is applied to the debt issuers and the counterparties, with individual credit limits set.

Credit and counterparty risks related to countries and financial institutions are assessed and monitored regularly according to the Group's Country Risks and Financial Institution Risks policies. The policies are implemented together to effectively assess and control credit limits and tenors made available to the respective financial institutions under an umbrella country risk limit for each country.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

The Group applies the same credit policy in respect of contingent liabilities as in respect of financial instruments recorded on the statement of financial position, based on loan approval procedures, use of limits to reduce risk and monitoring. Credit risk is also mitigated by obtaining collateral in the form of pledged assets and guarantees from borrowers and third parties.

(i) Credit quality

The Group has adopted a granular 24-grade internal risk rating system (Grades G01-G21 for performing financial assets and Grades G22-G24 for non-performing financial assets) that maps to external credit rating agencies' rating scales. The integration of this framework into the Group's reporting structure has enabled more granular credit risk reporting, thus enhancing the internal management. The risk rating are assigned according to differing customer segments (manufacturing, trading, property development/investment, etc.) which enables the ranking of the credit quality of each customer and the governing of the credit exposure for individual customers or counterparties.

Customers' risk ratings are reviewed regularly and amendments, where necessary, are implemented promptly, particularly in times of fluctuating market conditions. The Group also maintains a committee to regularly oversee weaker credits (which have lower risk ratings of G19-G21) to preserve the Group's quality portfolio. The table below outlines the Group's rating scale benchmarked against external credit agencies:

	Reference ECAI Rating			
Obligor Grade	**Moody's**	**S&P**	**Fitch**	**Rating Description**
G01	Aaa	AAA	AAA	Obligations are judged to have the highest intrinsic, or standalone, financial strength, and thus subject to the lowest level of credit risk absent any possibility of extraordinary support from an affiliate or government.
G02 – G04	Aa1/Aa2/Aa3	AA+/AA/AA-	AA+/AA/AA-	Obligations are judged to have high intrinsic, or standalone, financial strength, and thus subject to very low credit risk absent any possibility of extraordinary support from an affiliate or government.
G05 – G07	A1/A2/A3	A+/A/A-	A+/A/A-	Obligations are judged to have upper-medium-grade intrinsic, or standalone, financial strength, and thus subject to low credit risk absent any possibility of extraordinary support from an affiliate or government.
G08 – G10	Baa1/Baa2/Baa3	BBB+/BBB/BBB-	BBB+/BBB/BBB-	Obligations are judged to have medium-grade intrinsic, or standalone, financial strength, and thus subject to moderate credit risk and, as such, may possess certain speculative credit elements absent any possibility of extraordinary support from an affiliate or government.
G11 – G13	Ba1/Ba2/Ba3	BB+/BB/BB-	BB+/BB/BB-	Obligations are judged to have speculative intrinsic, or standalone, financial strength, and are subject to substantial credit risk absent any possibility of extraordinary support from an affiliate or government.
G14 – G16	B1/B2/B3	B+/B/B-	B+/B/B-	Obligations are judged to have speculative intrinsic, or standalone, financial strength, and are subject to high credit risk absent any possibility of extraordinary support from an affiliate or government.
G17 – G18	Caa1/Caa2	CCC+/CCC	CCC+/CCC	Obligations are judged to have speculative intrinsic, or standalone, financial strength, and are subject to very high credit risk absent any possibility of extraordinary support from an affiliate or government.
G19 Special Mention	Caa3	CCC-	CCC-	Obligations are judged to have highly speculative intrinsic, and are likely in, or near, default, with some prospect of recovery of principal and interest.
G20 Special Mention	Ca	CC	CC	Obligations are judged to have highly speculative intrinsic, and are likely in, or very near, default, with some prospect of recovery of principal and interest.
G21 Special Mention	C	C	C	Obligations are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.
G22 Substandard	D	D	D	Substandard. In accordance with the Asset Quality Classification Policy.
G23 Doubtful	D	D	D	Doubtful. In accordance with the Asset Quality Classification Policy.
G24 Loss	D	D	D	Loss. In accordance with the Asset Quality Classification Policy.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(ii) Exposure of credit risk

The maximum exposure to credit risk at the end of the reporting period, without considering any collateral held or other credit enhancements, is represented by the carrying amount of each financial instruments in the statement of financial position and off-balance sheet financial instruments after deducting any impairment allowances. A summary of the maximum exposure is as follows:

	At 30 June 2021 *HK$'000*	At 31 December 2020 *HK$'000*
Cash and balances with banks, central banks and other financial institutions	**18,998,911**	32,571,718
Placements with and advances to banks, central banks and other financial institutions	**38,714,203**	28,969,830
Financial assets at fair value through profit or loss	**6,041,946**	2,649,076
Derivative financial instruments	**8,712,890**	14,378,601
Loans and advances to customers and other accounts	**245,956,037**	226,453,449
Financial assets at fair value through other comprehensive income	**85,478,446**	84,840,800
Amortised cost investments	**53,356**	48,493
Financial guarantees and other credit-related contingent liabilities	**14,559,382**	20,252,337
Loan commitments and other credit-related commitments	**99,557,260**	97,891,862
	518,072,431	508,056,166

Further detailed analyses of the credit quality of financial assets by credit quality and stage distribution are provided in the note J(a)(vii) of the financial statements.

(iii) Master netting arrangement

The Group enters into enforceable master netting arrangements with counterparties. If an event of default occurs, all outstanding transactions with the counterparty are terminated and all amounts outstanding are settled on a net basis. Except for the event of default, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the statement of financial position. The Group discloses information for financial statement users to evaluate the effect or potential effect of netting arrangements, including the rights of set-off associated with the Group's recognised financial assets and recognised financial liabilities, on the Group's financial position.

	At 30 June 2021			
		Related amounts that are not offset in the statement of financial position		
	Derivative financial instruments presented in the statement of financial position *HK$'000*	**Financial instruments** *HK$'000*	**Cash collateral received** *HK$'000*	**Net amount** *HK$'000*
Financial assets				
– Derivative financial instruments *(note 16(b))*	**8,712,890**	**(4,084,232)**	**(871,528)**	**3,757,130**
Financial liabilities				
– Derivative financial instruments *(note 16(b))*	**8,500,096**	**(4,084,232)**	**–**	**4,415,864**

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(iii) Master netting arrangement (continued)

	At 31 December 2020			
		Related amounts that are not offset in the statement of financial position		
	Derivative financial instruments presented in the statement of financial position *HK\$'000*	Financial instruments *HK\$'000*	Cash collateral received *HK\$'000*	Net amount *HK\$'000*
Financial assets				
– Derivative financial instruments *(note 16(b))*	14,378,601	(7,335,314)	(1,648,722)	5,394,565
Financial liabilities				
– Derivative financial instruments *(note 16(b))*	15,160,283	(7,335,314)	–	7,824,969

(iv) Mitigation of credit risk – Collateral and other credit enhancements

The Group is dedicated to mitigating credit risk, and this takes many forms. In general, risk to the Group's ultimate credit exposure is mitigated by recognised collateral and credit risk enhancement. The Group continuously seeks to enhance its level of credit risk mitigation.

The principal collateral received to secure loans and advances includes mortgages, cash collateral, equities listed on a main index/recognised exchanges, accounts receivable assignments, standby letters of credit and listed debt securities acceptable to the Group. In some cases, depending on the customer's position and the types of credit products, some loans may be granted and backed by corporate or personal guarantees only.

The Group has guidelines on the acceptability of specific classes of collateral or credit risk enhancements accompanied by the determination of valuation parameters. Such parameters are expected to be conservative and reviewed regularly. Security structures and covenants (financial and non-financial) are subject to regular review to ensure they comply with the stipulated conditions. The collateral is important to mitigate credit risk, but it is the Group's policy to assess the repayment ability of individual customers or counterparties rather than just solely relying on securities.

The Group's collateralised credit risk at 30 June 2021 and 31 December 2020, excluding impaired exposure, is broken down as follows:

	At 30 June 2021 ***HK\$'000***	At 31 December 2020 *HK\$'000*
Lower of gross loans and advances and fair value of collateral and other credit enhancements held against financial assets that are:		
– neither past due nor impaired	**99,234,889**	98,874,080
– past due but not impaired	**1,771,066**	1,866,376
	101,005,955	100,740,456

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(v) Portfolio management and risk concentration

Portfolio management

As part of the Group's portfolio management practices, a Risk-based Pricing Model has been adopted with the aim of improving the overall return for the Group, after taking into account the risks of the customers and facilities, and thus the capital required to support the loan exposure and other costs. Stress tests on the Group's credit risk are conducted regularly. The result is approved by the relevant committees and is endorsed by the Board through the CRMC.

Risk concentration

The Group sets various risk limits to control and monitor its exposure to individual counterparties, countries, industries, intragroup exposures and loan portfolios to avoid excessive risk concentration.

Concentration of credit risk exists when changes in geographic, economic or industry factors affect groups of linked counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instrument is diversified along industry and product sectors.

(vi) Expected credit losses measurement

ECL allowances are recognised on all financial assets that are debt instruments classified either as amortised or fair value through other comprehensive income and for loan commitments and financial guarantees that are not measured at fair value through profit and loss. The ECL allowances represent an unbiased scenario that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and future economic conditions. Forward-looking information is explicitly incorporated into the estimation of ECL allowances and expert judgement on economic forecasts becomes one of the important factors to the ECL.

Measurement of ECL

ECL allowances are measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk ('SICR') since initial recognition. The calculation of ECL allowances is based on the expected value of probability-weighted scenarios with a combination of upside, base and downside scenario(s) to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flows that the Group expects to receive. The calculation of ECL allowances for Stage 3 is based on probability-weighted recovery amount from an impaired financial asset and is determined by evaluating a range of possible outcomes and time value of money.

The key inputs in the measurement of ECL allowances for Stage 1 and Stage 2 are as follows:

- The probability of default ("PD") is an estimate of the likelihood of default over a given time horizon;
- The loss given default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time; and
- The exposure at default ("EAD") is an estimate of the exposure at a future default date.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vi) Expected credit losses measurement (continued)

Stage transfer

Stage 1 is comprised of all non-impaired financial assets which have not triggered a SICR since initial recognition. Their credit risk continuously monitored by the Group and in assessing whether credit risk has increased significantly, the Group compares the risk of a default occurring on the financial instruments as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of its initial recognition.

Stage 2 is comprised of all non-impaired financial assets which have triggered a SICR since initial recognition. The Group recognises lifetime ECL for stage 2 financial assets. In subsequent reporting periods, if the credit risk of the financial assets improves such that there is no longer a SICR since initial recognition, then the Group reverts to recognising 12 months of ECL as the financial assets have transferred back stage 1.

Stage 3 financial assets are those that the Group has classified as credit-impaired. The Group recognises lifetime ECL for all stage 3 financial assets. The Group classifies financial assets as impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred.

For purchased or originated credit-impaired financial assets that are credit-impaired on initial recognition, their ECL allowances are always measured on a lifetime basis.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the remaining life of the financial instrument, even if, for risk management purposes, the Group has the right to consider a longer period.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vi) Expected credit losses measurement (continued)

Significant increase in credit risk

An assessment of whether the financial instruments have experienced SICR since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment is rule-based, unbiased and forward-looking, and considers all reasonable and supportable information, including information about past events, current conditions and future economic conditions.

The financial instruments will be considered to have significant increase in credit risk when:

a) The contractual payments of the instruments are with more than 30 days past due; or

b) The credit rating of the financial instrument has been gone down by 5 notches since initial recognition; or

c) The financial instruments have been classified as special mention.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for financial assets.

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 (the 'base economic scenario') are provided by the Group's economists and include consideration of a variety of actual and forecast information from internal and external sources. The Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios including 1 upside and 3 downside forecast scenarios.

In particular, the base scenario represents the most likely scenario of continuing the current economic situation; carrying a weight of 55% (2020: 55%); the upside scenario, namely benign, represents likelihood of improvements to the current economic situation; carrying a weight of 10% (2020: 10%); and the downside scenarios, namely, mild, medium and severe represents the likelihood of economic downturn of different severities, carrying a weight of 10%, 20% and 5% (2020: 10%, 20% and 5%) respectively. The economic forecasts are reviewed regularly to reflect the latest economic conditions. The ECL recognised in the financial statements reflect the probability weighted outcomes of a range of possible scenarios above and management continuously assess the appropriateness of the provision made against the borrowers concerned taking these information into consideration. If any adjustment in provision is deemed necessary, management overlay(s) would be applied to ensure conservativeness.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vi) Expected credit losses measurement (continued)

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

The Base scenario

The Group's Base Scenario is characterised by gradual growth across the globe over the forecast period of 2021 – 2025. Global economic growth is expected to gradually recover in these five years with rebound in real demand, economic activities and trade, as well as vaccine inoculations eventually ending the COVID-19 pandemic.

Mainland China GDP growth is forecast to maintain strength over the forecast period, as solid expansion in economic activities will be sustained as a result of robust retail sales, increasing fixed asset investment, strong exports, and recovering domestic demand.

Hong Kong's economy is expected to rebound strongly due to rising vaccination rates, relaxation of the government's virus – containment measures, increasing demand of exports and fixed capital investment. Solid recovery will continue as normalcy is gradually restored.

Unemployment rates have declined in most economies including Mainland China and Hong Kong, on the back of the rebound from the COVID-19 pandemic induced economic downturn. The unemployment rates are expected to drop but unlikely to return to the pre-pandemic levels in the short term.

The Benign Scenario

The Benign Scenario is a slight deviation from the Base Scenario in the positive direction, with the global economy expanding at a slightly faster-than-expected pace and other key economic indicators displaying slightly better-than-expected improvements.

The Mild Scenario

The Mild Scenario is s slight deviation from the Base Scenario in the negative direction, with the global economy expanding at a slightly slower-than-expected pace and other key economic indicators displaying slightly worse-than-expected improvements.

The Medium Scenario

The Medium Scenario is in between the Base Scenario and the Severe Scenario, with the global GDP growth rate and other key economic indicators standing at the medium points between those of the two scenarios.

The Severe Scenario

Under the Severe Scenario, the global economy falls into a recession as a result of the persistent COVID-19 pandemic with vaccines proving ineffective to the virus mutations, low vaccination rate resulting delayed in border re-open, escalating China – US and global economic and trade conflicts, sharp economic downturn in the US and China, and intensified geopolitical tensions. GDP is forecast to contract substantially in most of the advanced economies, including Hong Kong, and Mainland China will experience a marked deceleration. Consequently, equity markets experience sharp corrections, commodity prices plunge, and unemployment rates rise considerably.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vi) Expected credit losses measurement (continued)

Definition of default and credit-impaired assets

The Group defines a financial asset as in default when contractual repayment of principal or payment of interest is past due more than 90 days or fulfill certain assessment criteria as defined in the Asset Quality Classification Policy.

Moreover, in assessing whether a borrower is in default, the Group considers various indicators comprising: (i) qualitative – such as in breach of financial covenant(s), deceased, insolvent or in long-term forbearance; (ii) quantitative – such as overdue status and non-payment on another obligation of the same issuer to the Group. These criteria have been applied to all financial assets held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Group's expected loss calculations. The Group considers a financial asset to be in default when contractual repayment of principal or payment of interest is past due more than 90 days.

A financial asset is no longer considered in default when all past due amounts, including interest, have been recovered, and it is determined that the principal and interest are fully collectible in accordance with the original or revised contractual terms of the financial assets with all criteria for the impaired classification having been remedied.

Write-off

The Group writes off a financial asset in whole or in part, when it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. Indicators that there is no reasonable expectation of recovery include: (i) ceasing enforcement activity; (ii) where the Group's recovery method is enforcing collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full; and (iii) debtors in state of insolvency. The ECL allowances changed from HKD2,864.9 million as of 31 December 2020 to HKD3,320.4 million as of 30 June 2021. It was mainly as a result of the increase in provision for Stage 3 accounts. The Group will continue to objectively and timely assess the ECL allowances according to HKFRS 9 to ensure its sufficiency.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vii) Credit quality of financial assets

The Group manages and monitors its risks, and has an Asset Quality Classification Policy and Impairment Assessment Policy in place to govern this aspect. The Group has a professional team dedicated to handling recovery of non-performing loans, which include loan restructuring, taking legal action, repossession and disposal of collateral, etc.

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution.

	At 30 June 2021						
	Gross carrying/notional amount						
	Strong *HK$'000*	Satisfactory *HK$'000*	Higher risk *HK$'000*	Credit impaired *HK$'000*	Total *HK$'000*	ECL allowances *HK$'000*	Net carrying amount *HK$'000*
Balances with banks, central banks and other financial institutions at amortised cost	**19,002,059**	**–**	**–**	**–**	**19,002,059**	**(3,148)**	**18,998,911**
– Stage 1	19,002,059	–	–	–	19,002,059	(3,148)	18,998,911
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Placements with and advances to banks, central banks and other financial institutions at amortised cost	**38,636,171**	**83,241**	**–**	**–**	**38,719,412**	**(5,209)**	**38,714,203**
– Stage 1	38,636,171	83,241	–	–	38,719,412	(5,209)	38,714,203
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loans and advances to customers and other accounts at amortised cost	**153,915,642**	**81,255,907**	**9,936,549**	**3,941,417**	**249,049,515**	**(3,093,478)**	**245,956,037**
– Stage 1	153,636,669	80,264,319	1,408,259	–	235,309,247	(656,259)	234,652,988
– Stage 2	278,973	991,588	8,528,290	–	9,798,851	(553,101)	9,245,750
– Stage 3	–	–	–	3,941,417	3,941,417	(1,884,118)	2,057,299
Amortised cost investments	**53,360**	**–**	**–**	**–**	**53,360**	**(4)**	**53,356**
– Stage 1	53,360	–	–	–	53,360	(4)	53,356
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loan commitments and financial guarantee contracts *(Note (i))*	**106,651,334**	**126,000**	**21,454**	**–**	**106,798,788**	**(143,567)**	**106,655,221**
– Stage 1	106,633,164	126,000	–	–	106,759,164	(142,435)	106,616,729
– Stage 2	18,170	–	21,454	–	39,624	(1,132)	38,492
– Stage 3	–	–	–	–	–	–	–
Total	**318,258,566**	**81,465,148**	**9,958,003**	**3,941,417**	**413,623,134**	**(3,245,406)**	**410,377,728**
Financial assets at fair value through other comprehensive income – Debt securities *(Note (ii))*	**82,274,942**	**3,203,504**	**–**	**–**	**85,478,446**	**(218,544)**	
– Stage 1	82,274,942	3,203,504	–	–	85,478,446	(45,314)	
– Stage 2	–	–	–	–	–	–	
– Stage 3	–	–	–	–	–	(173,230)	
Total	**82,274,942**	**3,203,504**	**–**	**–**	**85,478,446**	**(218,544)**	

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vii) Credit quality of financial assets (continued)

	At 31 December 2020						
	Gross carrying/notional amount						
	Strong *HK$'000*	Satisfactory *HK$'000*	Higher risk *HK$'000*	Credit impaired *HK$'000*	Total *HK$'000*	ECL allowances *HK$'000*	Net carrying amount *HK$'000*
Balances with banks, central banks and other financial institutions at amortised cost	32,574,369	–	–	–	32,574,369	(2,651)	32,571,718
– Stage 1	32,574,369	–	–	–	32,574,369	(2,651)	32,571,718
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Placements with and advances to banks, central banks and other financial institutions at amortised cost	28,689,080	291,719	–	–	28,980,799	(10,969)	28,969,830
– Stage 1	28,689,080	291,719	–	–	28,980,799	(10,969)	28,969,830
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loans and advances to customers and other accounts at amortised cost	140,150,613	74,635,210	10,477,689	3,882,251	229,145,763	(2,692,314)	226,453,449
– Stage 1	139,467,671	73,922,436	1,377,781	–	214,767,888	(589,755)	214,178,133
– Stage 2	682,942	712,774	9,099,908	–	10,495,624	(577,740)	9,917,884
– Stage 3	–	–	–	3,882,251	3,882,251	(1,524,819)	2,357,432
Amortised cost investments	48,494	–	–	–	48,494	(1)	48,493
– Stage 1	48,494	–	–	–	48,494	(1)	48,493
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loan commitments and financial guarantee contracts *(Note (i))*	102,279,249	1,400	–	–	102,280,649	(126,654)	102,153,995
– Stage 1	102,259,344	1,400	–	–	102,260,744	(125,762)	102,134,982
– Stage 2	19,905	–	–	–	19,905	(892)	19,013
– Stage 3	–	–	–	–	–	–	–
Total	303,741,805	74,928,329	10,477,689	3,882,251	393,030,074	(2,832,589)	390,197,485
Financial assets at fair value through other comprehensive income – Debt securities *(Note (ii))*	82,647,079	2,193,721	–	–	84,840,800	(158,972)	
– Stage 1	82,647,079	2,193,721	–	–	84,840,800	(42,713)	
– Stage 2	–	–	–	–	–	–	
– Stage 3	–	–	–	–	–	(116,259)	
Total	82,647,079	2,193,721	–	–	84,840,800	(158,972)	

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vii) Credit quality of financial assets (continued)

Note:

(i) The notional amount of commitments and financial guarantee contracts refer to those commitments and financial guarantees which subject to impairment requirements under HKFRS 9. Therefore, figures disclosed in the above do not agree with the figures disclosed in note 35.

(ii) Debt securities measured at FVOCI are held at fair value at 30 June 2021. The expected credit losses allowances in respect of debt securities measured at FVOCI are held within reserves.

(iii) Classification of credit quality

The Group adopts the following internal risk ratings to determine the credit quality for financial assets.

Credit quality description	Internal ratings
Strong	G01-G12
Satisfactory	G13-G16
Higher risk	G17-G21
Credit impaired	G22-G24

(viii) Credit quality of financial assets at debt securities measured at FVPL and FVOCI

For the application of credit rating to debt securities, primarily the issue specific rating would be taken as reference for credit risk rating assignment. Where this is not available, the issuer rating would be adopted. When the issuer rating is not available, the rating of the guarantor of that debt securities (if applicable) would be adopted, otherwise it would be treated as unrated. The following table presents an analysis of the credit quality of investments in debt securities at the end of the reporting period.

	At 30 June 2021			
	Debt securities measured at FVPL *HK$'000*	**Debt securities measured at FVOCI** *HK$'000*	**Debt securities measured at amortised cost investments** *HK$'000*	**Total** *HK$'000*
Aaa	**48,039**	**7,108,627**	**–**	**7,156,666**
Aa3 to Aa1	**506,972**	**21,107,955**	**53,356**	**21,668,283**
A3 to A1	**4,628,108**	**49,474,967**	**–**	**54,103,075**
Lower than A3	**766,572**	**7,321,776**	**–**	**8,088,348**
	5,949,691	**85,013,325**	**53,356**	**91,016,372**
Unrated	**92,255**	**465,121**	**–**	**557,376**
Total	**6,041,946**	**85,478,446**	**53,356**	**91,573,748**

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(viii) Credit quality of financial assets at debt securities measured at FVPL and FVOCI (continued)

	At 31 December 2020			
	Debt securities measured at FVPL *HK$'000*	Debt securities measured at FVOCI *HK$'000*	Debt securities measured at amortised cost investments *HK$'000*	Total *HK$'000*
Aaa	–	4,615,014	–	4,615,014
Aa3 to Aa1	558,314	22,225,056	48,493	22,831,863
A3 to A1	1,258,890	49,291,171	–	50,550,061
Lower than A3	627,756	8,003,915	–	8,631,671
	2,444,960	84,135,156	48,493	86,628,609
Unrated	204,116	705,644	–	909,760
Total	2,649,076	84,840,800	48,493	87,538,369

(b) Market risk management

Market risk is the risk of loss caused by an adverse change in valuation associated with holding either long or short market positions. The risk arises as a result of market making, underwriting, principal position taking and asset/liability management in interest rate, foreign exchange, equity, credit and commodity markets and their associated derivatives instruments. The Group manages its market risk exposures mainly through its trading and treasury business. The trading business is to facilitate customer activities, but as a result, takes on principal positions. The treasury business performs asset/liability management function including liquidity risk management, with securities positions intended for liquidity management and investment purposes under non-trading portfolio (debt securities measured at fair value through other comprehensive income).

The objective of market risk management is to consistently measure and monitor market risk on a timely and unbiased basis in order to better manage the portfolios and, by doing so, optimise financial performance. The business is responsible for managing market risks to meet corporate performance objectives within the market risk limit parameters. The Risk Management Group ("RMG") is responsible to independently monitor and report all market risks.

Market risk framework

The Board of the Group allocates capital or risk appetite through the limit process. The Board delegates Credit & Risk Management Committee ("CRMC") to establish limits for the different businesses. CRMC further delegates market risk limit establishment to the Market Risk Committee ("MRC") and then to RMG. RMG is responsible for designing and drafting the market risk limits and framework and reviewing and updating the limits on a regular basis. The market risk limits are to be approved by MRC and endorsed by CRMC. In addition, the Board also establishes a set of risk indicators under the risk appetite statement ("RAS") in measuring different types of risks including market risk.

RMG is an independent function reporting to the Chief Risk Officer ("CRO"). RMG uses both quantitative and qualitative measures in analysing market risk. The analysis includes, but not limited to, Value-at-Risk ("VaR"), stress testing, risk sensitivities, market events, product liquidity and volatility, underlying quality, hedging strategy, performance including profit and loss, accuracy of valuations and balance sheet and capital consumptions. The results are regularly reported to senior management and CRO and to MRC and CRMC.

(J) RISK MANAGEMENT (CONTINUED)

(b) Market risk management (continued)

Methodology and characteristics of market risk model

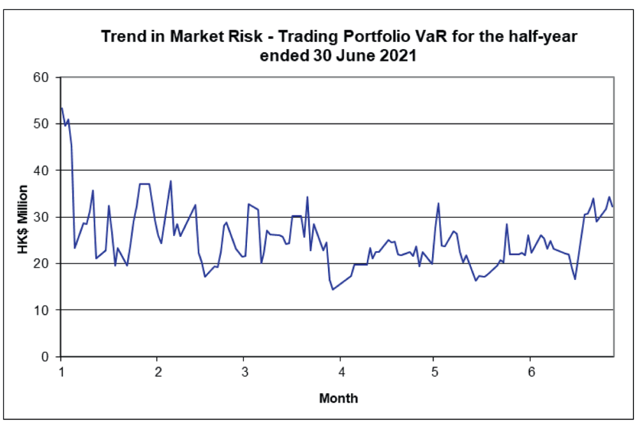
Value-at-risk ("VaR")

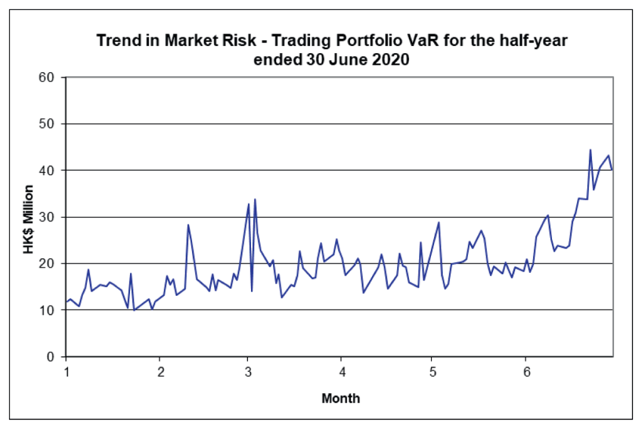
VaR is a technique in estimating the potential losses that could occur on market risk-taking positions due to market rates and prices movement under normal market conditions over a specified time horizon. The model is designed to capture different types of risk including interest rate risk, foreign exchange risk, credit spread risk, equity risk, commodity risk and volatility risk.

The VaR model used by the Group is based on the historical simulation technique. The technique predicts the value at risk by simulating or constructing position returns over time arise from the historical changes in rates and prices in the interest rate, foreign exchange, equity, credit and commodity markets.

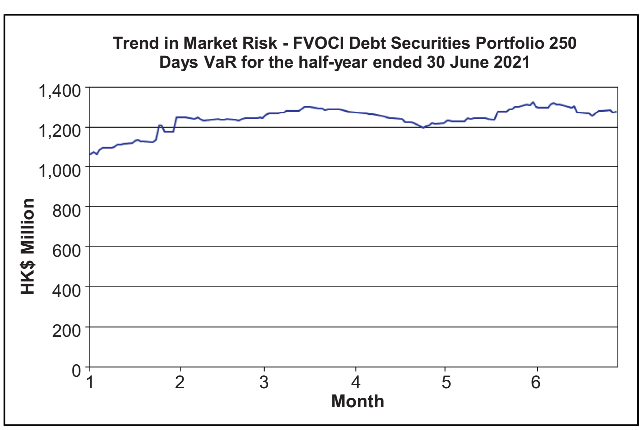
For the calculation of VaR, the Group uses the most recent two years of historical market rates, prices and volatilities.

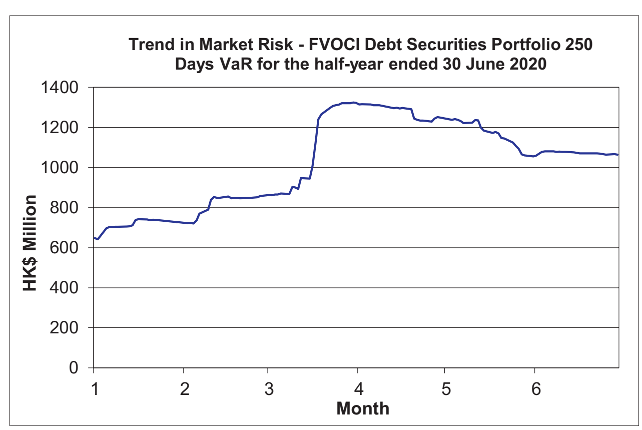
– For the trading positions, the VaR is calculated for one-day holding period.





– For the FVOCI debt securities and related positions, VaR is calculated for 250-day holding period.





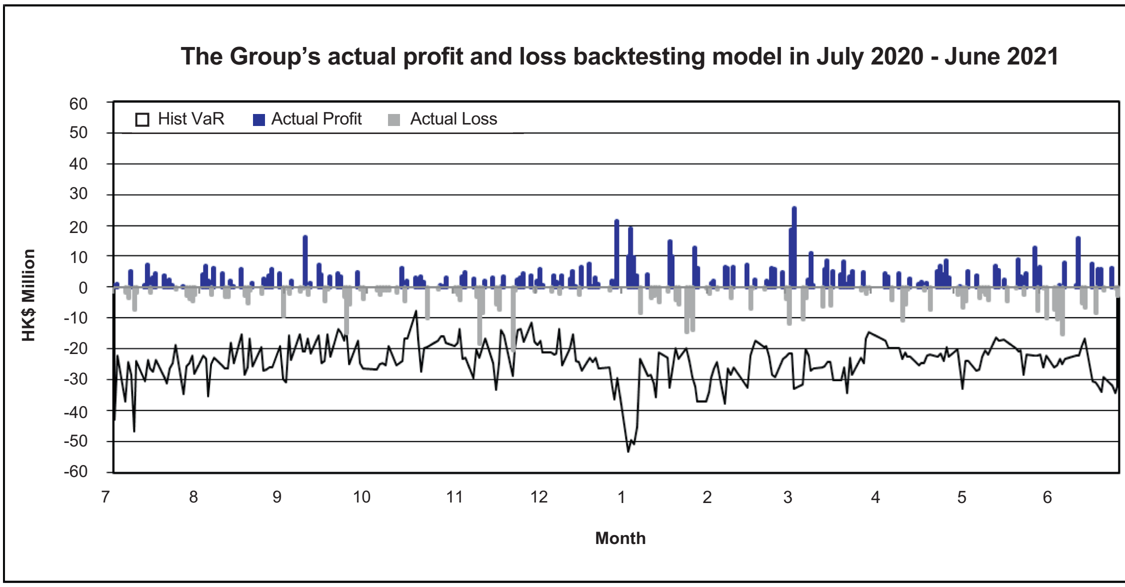
(J) RISK MANAGEMENT (CONTINUED)

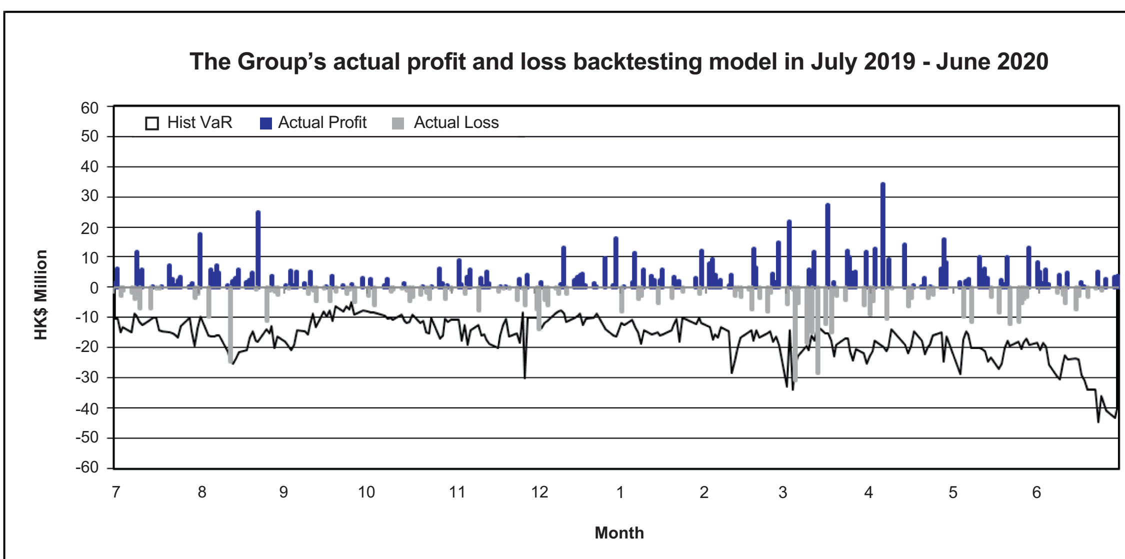
(b) Market risk management (continued)

Methodology and characteristics of market risk model (continued)

Value-at-risk ("VaR") (continued)

– The Group back-tests the accuracy of its VaR model by comparing the actual and hypothetical daily profit and loss, adjusted for items including fees and commissions, against the corresponding VaR figures. For the period from 1 July 2020 to 30 June 2021, there were 1 exception in the back-testing results (for the period of 1 July 2019 to 30 June 2020, there were 4 exceptions), which corresponds to the green zone specified by the HKMA and the international Basel principles.





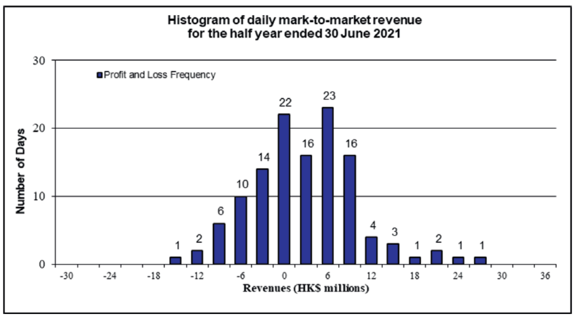
(J) RISK MANAGEMENT (CONTINUED)

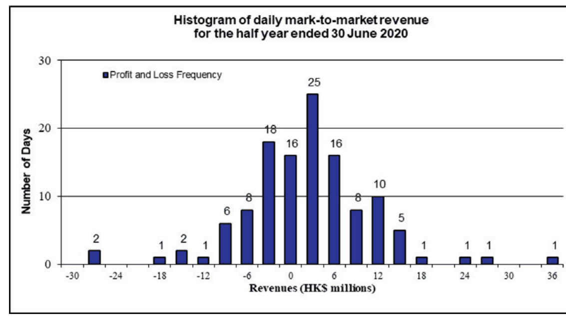
(b) Market risk management (continued)

Methodology and characteristics of market risk model (continued)

Value-at-risk ("VaR") (continued)

For the six months ended 30 June 2021, the average daily mark-to-market revenue from the Group's trading portfolio was a gain of HK$1,331,000 (30 June 2020: gain of HK$1,041,000). The standard deviation of the daily revenue was HK$7,266,000 (30 June 2020: HK$8,943,000). The graphs below show the histograms of the Group's daily mark-to-market revenue for the period ended 30 June 2021 and 2020, respectively.





The tables below decomposes VaR by risk factors for the trading positions and the FVOCI debt securities-related positions.

1-day VaR for the trading positions

	Six months ended 30 June 2021				Six months ended 30 June 2020			
	Approximate			**At 30**	Approximate			At 30
	maximum	**minimum**	**mean**	**June 2021**	maximum	minimum	mean	June 2020
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Foreign exchange risk	**24,259**	**2,710**	**10,784**	**7,831**	31,032	3,158	11,304	26,851
Interest rate risk and credit spread risk	**42,114**	**13,790**	**22,465**	**29,919**	24,171	8,513	15,291	21,538
Total VaR	**53,296**	**14,476**	**25,658**	**32,332**	44,497	9,909	20,082	40,166

250-day VaR for the debt securities measured at FVOCI related positions

	Six months ended 30 June 2021				Six months ended 30 June 2020			
	Approximate			**At 30**	Approximate			At 30
	maximum	**minimum**	**mean**	**June 2021**	maximum	minimum	mean	June 2020
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest rate risk	**849,229**	**778,632**	**810,335**	**816,617**	1,162,221	752,505	1,035,430	1,113,904
Credit spread risk	**1,478,964**	**1,247,136**	**1,335,457**	**1,417,752**	1,326,916	780,097	1,109,374	1,129,865
Total 250-day VaR	**1,324,072**	**1,063,496**	**1,238,178**	**1,276,229**	1,324,027	641,417	1,020,947	1,064,040

Stress testing

Stress testing is implemented as a compliment of the VaR model in order to capture remote, but plausible events. The Group uses both sensitivity-based and historical-based scenarios for market risk stress testing. The results are reported to senior management, MRC and CRMC.

(J) RISK MANAGEMENT (CONTINUED)

(b) Market risk management (continued)

Currency risk

The Group's foreign exchange risk stems from taking foreign exchange positions from commercial dealings, investments in foreign currency securities, and operations of the Group and its overseas branches and subsidiaries. The Group's foreign exchange positions are subject to exposure limits approved by the MRC. Methods adopted to measure foreign currency risk exposure against corresponding limits include individual currency positions, overall foreign exchange positions and sensitivities such as Greeks (for foreign exchange options). For the period ended 30 June 2021, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK$453,000 (six months ended 30 June 2020: a profit of HK$177,000) with a standard deviation of HK$9,520,000 (six months ended 30 June 2020: HK$15,484,000).

Significant foreign currency exposures at the end of the reporting period were as follows:

	At 30 June 2021				At 31 December 2020			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**	USD	RMB	Others	Total
Spot assets	**171,062,609**	**23,834,937**	**21,348,963**	**216,246,509**	164,369,879	22,409,162	26,200,137	212,979,178
Spot liabilities	**(124,854,116)**	**(27,305,239)**	**(12,170,075)**	**(164,329,430)**	(120,232,212)	(20,069,718)	(14,058,439)	(154,360,369)
Forward purchases	**568,288,552**	**375,907,465**	**75,590,148**	**1,019,786,165**	362,454,488	194,205,562	71,795,914	628,455,964
Forward sales	**(610,029,501)**	**(371,331,120)**	**(85,278,587)**	**(1,066,639,208)**	(402,141,228)	(199,504,087)	(83,411,374)	(685,056,689)
Net options position	**(607,719)**	**383,183**	**101,374**	**(123,162)**	(3,634,671)	4,018,861	(359,109)	25,081
Net long/(short) position	**3,859,825**	**1,489,226**	**(408,177)**	**4,940,874**	816,256	1,059,780	167,129	2,043,165
Net structural position	**–**	**721,008**	**48,518**	**769,526**	–	714,898	48,542	763,440

The net option position is calculated using the Model User Approach, which has been approved by the HKMA.

Interest rate risk

The Group's interest rate risk arise from its banking and trading book. For the banking book, ALCO and RMG are responsible in overseeing the interest rate exposure arised from its assets and liabilities management. The function of central treasury units is responsible in managing the interest rate risk using different financial products including interest rate derivatives, under which hedge accounting treatment is adopted. The interest rate risk includes repricing risks, basis risks, yield curve risks and embedded option risks, and are governed by the Interest Rate Risk Management Policy for the Banking Book.

For the trading book, MRC and RMG are responsible in overseeing the interest rate exposure from its trading portfolio. Global Markets is responsible in managing the interest rate risk using different financial products including derivatives, under which mark-to-market treatment is adopted. The interest rate risk includes basis risks, yield curve risks and embedded option risks, and are governed by the Market Risk Policy.

For the six months ended 30 June 2021, the Group's average daily trading profit and loss related to interest rate and fixed income trading strategy was a profit of HK$878,000 (30 June 2020: a profit of HK$864,000), with a standard deviation of HK$8,841,000 (30 June 2020: HK$16,111,000).

(J) RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk management

Liquidity risk is the risk that the Group may not be able to fund an increase in assets or meet obligations as they fall due without incurring unacceptable losses. Such funding liquidity risk arises from the maturity mismatch of the assets and liabilities that the Group manages. Market liquidity risk is a risk that occurs when additional costs are involved in disposing of a position in the market under abnormal or stressed market conditions. Under these conditions, the bid-ask spreads for the position are much wider than usual or there could even be an extreme lack of buyers. As a result, the Bank will incur extra costs to dispose of the position.

The liquidity risk management framework is as follows:

– The management of the Group's liquidity risk is governed by the Liquidity Management Policy, concurred by the Asset and Liability Committee ("ALCO") and the CRMC, and approved by the Board of Directors.

– The CRMC is delegated by the Board of Directors to oversee the Group's liquidity risk management. Its main responsibilities are to review and approve policies, set strategies, and define risk appetite and tolerance limits.

– The ALCO is established by the Chief Executive Officer and ratified by the CRMC as the governing body responsible for formulating and implementing policies, strategies, guidelines and limit structures. It also identifies, measures and monitors the Group's liquidity risk profile to ensure current and future funding requirements are met. In addition, the ALCO monitors a set of risk indicators for liquidity risk. Daily liquidity stress testing, which includes market general, bank-specific and combined (market general and bank-specific) stress scenarios, is conducted by the Risk Management Group, and the stress results are regularly reviewed by the ALCO to assess the current risk tolerance level and the level of the liquidity cushion. A Contingency Funding Plan is established which sets out the strategies for addressing liquidity stress situations. The plan contains a set of policies, procedures and action plans, with clearly established lines of responsibility, as well as invocation and escalation procedures. This plan is reviewed and approved by the ALCO on a regular basis.

– Daily liquidity management is managed by the Central Treasury Unit to monitor funding requirements. This unit is supported by other functional departments including the Financial Management Group and Risk Management Group, which monitor the liquidity risk and provide regular reports to the management, committees and local regulatory bodies. Limits for net cash flow per different time bucket under stress scenarios have been set to ensure that adequate funding and liquid assets are available to meet liquidity needs. Moreover, limits, triggers or alerts are set for other liquidity risk indicators such as the statutory liquidity ratios, the loan-to-deposit ratio, the currency mismatch ratio and the maturity mismatch ratio. Both quantitative and qualitative measures are employed to identify and measure market liquidity risk. Limits and alert levels related to market and funding liquidity risk are monitored and reported by the Financial Management Group or Risk Management Group to the ALCO to review and approve on a regular basis. The Audit Department performs periodic reviews to ensure liquidity risk management functions are carried out effectively.

Liquidity management is conducted at the Group and the Bank levels, and at individual overseas branches and subsidiaries. Financial subsidiaries and overseas branches are responsible for implementing their own liquidity management policies under the framework established by the ALCO and local regulatory requirements, taking into account their different liquidity risk characteristics. The liquidity situation of overseas branches and subsidiaries falls under the overall supervision of the ALCO. Policy and respective counterparty limits are set for overseas branches and subsidiaries in respect of the funding support extended from the head office. The Group expects all business units to contribute to the success of managing liquidity under normal and contingency situations by maintaining a rapport with depositors, customers, interbank counterparties, related companies and the HKMA.

(J) RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk management (continued)

The objective of liquidity management is to meet obligations payable under normal and emergency circumstances, to fund asset growth and to comply with the statutory liquidity requirements. To achieve this, the following liquidity management processes are in place:

– Projecting cash flows in normal and various stress scenarios, using the net mismatch gap between assets and liabilities to estimate the prospective net funding requirement;

– Factoring potential drawdown on irrevocable committed facilities into our normal and stress scenarios to cater for contingent liquidity risk;

– Monitoring the statutory liquidity ratios, the loan-to-deposit ratio, the currency mismatch ratio and the maturity mismatch ratio against internal and/or regulatory requirements;

– Ensuring a sound and diversified range of funding sources, through monitoring the structure and the stability of the deposit portfolio;

– Projecting the statutory liquidity ratios regularly for the short to medium term to permit early detection of liquidity issues and to ensure the ratios are within statutory requirements and internal triggers;

– Projecting a high-level funding requirement and funding structure during the annual budget process to ensure sufficient funding and an appropriate funding mix;

– Conducting liquidity risk assessment before launching a new product;

– Maintaining High Quality Liquid Assets ("HQLA") comprising cash and investment grade securities as a cushion against unexpected funding needs. The amount of HQLA that the Group maintains is determined with reference to the statutory requirement and the results of the liquidity stress tests;

– Maintaining access to the interbank money market;

– Maintaining a funding programme to tap debt funding on a regular basis;

– Monitoring the Group's collateral requirement. Periodically assess and review the additional collateral required under derivative contracts and credit downgrade events. Based on the positions at 30 June 2021, in the event of a 2-notch downgrade, the impact on the Group's additional collateral requirement is minimal; and

– Maintaining a Contingency Funding Plan, which integrates with the results of the scenarios and assumptions used in the stress test, including setting early warning indicators (including internal and market indicators), and describing actions to be taken in the event of a stress crisis, so as to minimise adverse long-term implications for business.

The Group funds its operations through a diversified funding source, primarily from the retail and corporate customer deposits. At the same time, it also participates in the wholesale funding market through the issuance of certificates of deposit ("CDs") to secure another source of term funding and to enable diversification of funding sources. Deposit tenor mix and debt maturities are regularly monitored to ensure there is an appropriate funding maturity mix.

Under the Banking (Liquidity) Rules, the Group being a Category 1 institution is required to maintain a Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") above the statutory minimum requirements.

An appropriate level and currency mix of HQLA has been maintained to ensure that the Group could handle sudden drains in market liquidity due to adverse or unexpected economic events under the HKMA's regulatory framework. Besides, the Group also monitors and reports the LCR for each individual significant currency to ALCO regularly to control the currency mismatch in the LCR. The increase in average LCR in the first half of 2021 was mainly driven by the increase in Level 1 HQLA.

(J) RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk management (continued)

	Weighted amount (average value)				
	For quarter ended 30 June 2021	**For quarter ended 31 March 2021**	For quarter ended 31 December 2020	For quarter ended 30 September 2020	For quarter ended 30 June 2020
Average LCR	**249%**	**225%**	217%	240%	224%

The Group always maintains sufficient cash and liquid positions as well as a pool of HQLA as a liquidity cushion that can be liquidated in stress scenarios. The majority of HQLA included in the LCR is Level 1 assets as defined in Banking (Liquidity) Rules. The below table shows the composition of the Group's HQLA in the LCR framework:

	Weighted amount (average value)				
	For quarter ended 30 June 2021 *HK$'000*	**For quarter ended 31 March 2021 *HK$'000***	For quarter ended 31 December 2020 *HK$'000*	For quarter ended 30 September 2020 *HK$'000*	For quarter ended 30 June 2020 *HK$'000*
Level 1 assets	**51,238,524**	**41,380,964**	42,607,213	36,145,061	34,012,891
Level 2 assets	**13,300,794**	**11,251,335**	10,836,099	9,278,291	8,373,110
Total	**64,539,318**	**52,632,299**	53,443,312	45,423,352	42,386,001

The Group also maintains sufficient available stable funding in support of its longer-term assets to meet the statutory NSFR requirements. The changes in the NSFR in the first half of 2021 was mainly driven by the movements in deposits from retail customers. There is no interdependent asset and liability as defined in the Banking (Liquidity) Rules in the Group.

	Quarter ended 30 June 2021	**Quarter ended 31 March 2021**	Quarter ended 31 December 2020	Quarter ended 30 September 2020	Quarter ended 30 June 2020
NSFR	**122%**	**128%**	128%	134%	139%

For the purposes of compliance with Banking (Disclosure) Rules, information relating to the Group's liquidity are published by using standard disclosure templates as specified by the HKMA and they can be viewed in the Regulatory Disclosures section of our Bank's corporate website at www.cncbinternational.com.

(J) RISK MANAGEMENT (CONTINUED)

(d) Capital management

The Group's primary objectives when managing capital are:

– to comply with the capital requirements set by the banking regulators in the markets where the entities within the Group operate;

– to maintain a strong capital base to support the development of its business; and

– to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The HKMA sets and monitors capital requirements for the Group as a whole. An individual banking subsidiary is directly regulated by its local banking supervisor. The HKMA requires that the Group maintains three prescribed minimum risk-weighted capital ratios: Common Equity Tier 1 ("CET1") capital ratio, Tier 1 capital ratio and total capital ratio. In accordance with the Banking (Capital) (Amendment) Rules 2014 which came into effect on 1 January 2015, the Basel III capital buffers, namely capital conservation buffer ("CCB") which is designed to ensure that banks build up capital outside periods of stress of 2.5% of risk-weighted amounts and countercyclical capital buffer ("CCyB") which is set on an individual country basis and is built up during periods of excessive credit growth, came into operation. Both have been fully implemented on 1 January 2019. On 16 March 2020, the HKMA reduced the CCyB ratio for Hong Kong to 1.0% of risk-weighted amounts. Basel III framework also introduced a leverage ratio as a non-risk-based backstop limit, to supplement risk-based capital requirements. On 1 January 2018, the Banking (Capital) (Amendment) Rules 2017 came into operation and prescribed the statutory minimum leverage ratio of 3%.

The Group adopts the standardised approach of calculating market risk in its trading portfolios and risk weightings for credit risk, and the basic indicator approach for operational risk. Banking operations are categorised as either trading or banking book, and risk-weighted amounts are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing, and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. In order to comply with the risk-based supervisory framework of capital adequacy stipulated by the HKMA, the Group conducts the Internal Capital Adequacy Assessment Process, which assesses the capital requirement for Pillar 2 risks and hence the capital requirement for Pillar 1 and 2 is derived. Moreover, as part of the capital management policy and to ensure capital adequacy, the Group conducts capital planning annually, which takes into account the strategic focus, future business growth, risk appetite and regulatory requirement. The plan covers the issuance of capital instruments, if required, to ensure the Group's capital ratios are well above their respective internal monitoring levels and regulatory requirement. Regular stress testing is performed to ensure that the impact of extreme but plausible scenarios on the risk profile and capital position is considered. Stress testing also gives an insight into the potential impact of significant adverse events and how these could be mitigated.

Consistent with industry practice, the Group monitors its capital structure on the basis of the capital adequacy ratio. There have been no material changes in the Group's policy on the management of capital during the period.

The capital adequacy ratios at 30 June 2021 were computed on the consolidated basis of the Group and some subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period ended 30 June 2021 and year ended 31 December 2020, and the Group's capital ratios are well above the minimum required ratios set by the HKMA.

(J) RISK MANAGEMENT (CONTINUED)

(e) Operational risk management

Definition of operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Governance framework

The Group has established an Operational Risk Governance Framework ("ORGF") to identify, assess, mitigate, control, monitor and report operational risk. The ORGF encompasses every member within the Group and is governed by policies and guidelines which define the minimum requirements to ensure a consistent approach to manage operational risks. The Operational Risk Management Committee ("ORMC") is established by the Chief Executive Officer ("CEO") and ratified by the Credit & Risk Management Committee ("CRMC"), which is a Board delegated Committee to oversee Operational Risk Management ("ORM") and relevant matters. Implementation of ORM plans and tools is driven by a Group-level ORM department with the support from other key participants and subject matter experts in ORM.

Management of operational risk

To ensure effective management of operational risk across the Group, the Governance Structure presents three lines of defense as depicted below:

First Line of Defence – Day-to-day operational risk management lies with our business units, support units and the Business Operational Risk Officer ("BORO") of each unit assists the respective unit heads in this regard. Business and support units are responsible for identifying, assessing, managing and monitoring operational risks.

Second Line of Defence – ORM department assists management in meeting their responsibility of understanding and managing operational risk and ensures the development and consistent application of operational risk policies, processes and procedures throughout the Group. The ORM department works closely with the first Line of Defence (1LOD) to strengthen the Group's operational risk management by offering guidance and functional oversight support, monitors the Group's overall operational risk exposures and ensures that all material risks are promptly and appropriately escalated to the ORMC, CRMC and senior management of the Group for their attention.

Third Line of Defence – The Internal Audit Group examines and evaluates the adequacy and control effectiveness of the ORGF on an ongoing basis.

Risk assessments are conducted on all outsourced activities, new products and large projects.

(J) RISK MANAGEMENT (CONTINUED)

(e) Operational risk management (continued)

Key tools and methodologies

The Group identifies, assesses, monitors and reports on operational risk through the ORM tools and systems as set out below:

– Operational Risk & Control Self-Assessment ("RCSA") is a tool to identify and assess the level of operational risk and effectiveness of control. RCSA has been rolled out across the business and support units under the guidance of the ORM department. RCSA leaders are nominated by the management of each business and support unit to conduct self-assessments and identify key risk factors in their daily business and support functions. Each key risk factor is assessed and quantified for financial impact, in terms of the estimated loss impact of each occurrence and estimated number of occurrences. In addition to the financial impact assessment, non-financial impacts including customer, regulatory and reputation impacts are also assessed taking into considerations of both likelihood of risk materializing and severity of impact.

– Key Risk Indicators ("KRIs") are statistical metrics that take various risk factors into consideration and serve to provide early warning signals for management's monitoring and action. Through regular monitoring of these KRIs, areas of potential operational control weaknesses can be identified at an early stage and addressed promptly. KRIs are developed at two levels, namely the group and the unit level. Unit level KRIs are developed by the respective units, and are monitored and tracked for progress towards completion of applicable mitigation plans. Thresholds are established for each business unit and support unit with reference to the risk appetite of the Group or the acceptable risk level for the unit under each risk factor.

– Operational risk incidents are reported into a centralized operational loss database. The ORM department ensures all material operational risk incidents are registered in the database, and are properly investigated, with corrective and preventive actions promptly executed according to agreed timelines. The loss data serves as a centralized database to produce regular reports for senior management, ORMC and CRMC review on the impact of significant incidents and monitoring of the operational risk loss trends. An escalation protocol is in place to ensure that operational risk incidents with significant impact are reported to the regulatory authorities, if deemed necessary. Lower impact operational risk events are also collected to assist trend analysis and provide a more forward looking perspective of potential risk issues that warrant for closer attention.

– Operational Risk Dashboard ("ORD") provides management with an overview of the key operational risk issues including but not limited to the progress of the RCSA reviews and KRI evaluation results. This information is submitted to the ORMC and relevant summarized information is submitted to the CRMC quarterly as part of the Group-wide Risk Status Update Report. The Group-wide Risk Status Update Report captures the implementation status of ORM initiatives, contains analyses on the trend of operational losses, highlights operational risk incidents that have a material impact on the Group.

The Group will continuously fine-tune and enhance its operational risk governance framework to align with industrial developments and best practices. A web-based learning programme on operational risks is required for all new joiners and an annual refresher training on ORGF is compulsory for all staff. Training workshops led by the ORM team department are offered to business and support units with the objectives to raise operational risk awareness among staff, familiarize them with the ORM tools and enhance understanding of the ORGF along with their roles, responsibilities and accountabilities. This is further reinforced by strong management support which encourages staff to embrace and pursue operational excellence.

The Group's long-term goal is to cultivate a proactive, responsible and accountable culture on ORM, and achieve operational excellence through robust and continuous operational risk management.

(J) RISK MANAGEMENT (CONTINUED)

(f) Legal risk management

The Group remains abreast of all legal and regulatory requirements applicable to its governance and operations, and continuously seeks to develop its people, enhance its systems and processes, and implement changes as necessary to meet the demands and create awareness of such requirements. Regular reviews are conducted with respect to the Group's policies and procedures to ensure the same reflect the latest legal and regulatory requirements. Issuance of new or substantially revised policies and procedures are often accompanied by relevant training. There is a strong process in place to ensure legal and regulatory risks are identified, monitored and mitigated. Any significant matters that arise relating to such risks are reported as appropriate by the Legal and Compliance function to the Group's CRMC or senior management.

The Legal and Compliance Department has been one of the key partners in the business, providing legal and compliance advice and support to all parts of the Group and working with business and support units to ensure relevant controls are in place. In the first half of 2021, the Legal and Compliance Department had actively involved in new product launches and new business initiatives, strategically important transactions and commercial agreements, outsourcing arrangements as well as day-to-day matters arising from the Group's business. The Legal and Compliance Department will remain heavily involved in monitoring and ensuring compliance with changing regulatory requirements in various areas impacting the Group, and will continue to advise and support the Group in meeting the legal and regulatory challenges that lay ahead.

(g) Strategic and reputation risk management

Strategic risk management refers to the Group's efforts to develop, uphold and implement strategic decisions related to its long-term growth and development. Reputation risk management refers to the Group's efforts to protect its brand name and business franchise from any potential damages arising from negative publicity and information about its business practices, conduct or financial condition.

The CRMC of the Group meets regularly to monitor and oversee the Group's strategic and reputation risks. Senior management places high priority on ensuring that the Group's business and operational strategies are appropriately defined and are executed professionally and promptly. Such strategies are reviewed regularly to enable the Group to respond efficiently to changes in its operating and regulatory environment. Business priorities, set on a bank-wide basis, as well as for individual business and functional units, are aligned to support the Group's strategies, and measurable targets are assigned to ensure execution excellence. Great care is also taken to protect the Group's reputation and to maximise its brand equity. This includes ongoing efforts to monitor and ensure high standards of customer satisfaction, operational efficiency, legal and regulatory compliance, public communication and issues management.

(h) New Product Risk Governance

Definition of New Product Risk

– New Product Risk comprise the risks associated with launch of new products and services (including changes to existing products and services), encompassing credit, market, interest rate, liquidity, operational, reputation, strategic, legal and compliance risks.

Governance Framework

– The Group has established an enhanced product governance framework to instill more stringent and comprehensive assessment and approval processes prior to launch. The framework is governed by the New Product Approval Policy, which is approved by the Board and under the oversight of the New Product Committee ("NPC") and the CRMC. The effective implementation of the controls and monitoring measures is driven by the dedicated New Product Governance team under the Risk Management Group, with the support from other risk management functions and subject matter experts on specific risk areas, including the Controls & Compliance Group, Financial Management Group, Operations Management Group, Information Technology Group and CEO Office.

(J) RISK MANAGEMENT (CONTINUED)

(i) IBOR reform

Following the decision by global regulators to phase out IBORs and replace them with alternative benchmark rates, the Group has set up a project committee to manage the transition for any of its contracts that could be affected. The project is led by senior representatives from functions across the Group including the client facing teams, Legal, Finance, Operations and Technology. During the first half of 2021, the Group has successfully completed the transition of a certain portion of its IBOR exposure to RFRs and has in place detailed plans, processes and procedures to support the transition of the remainder during the second half of 2021. Following the progress made in the first half of 2021, the Group is confident that it has the operational capability to process the large volume of transitions to RFRs that will be necessary during the remaining part of 2021 for those interest rate benchmarks such as GBP LIBOR that will cease to be available and so will be replaced by SONIA. For other benchmark interest rates such as EURIBOR that have been reformed and can therefore continue, financial instruments referencing those rates will not need to have a transition.

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

– Conduct risk arising from communications with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform.

– Financial risk to the Group that markets are disrupted due to IBOR reform giving rise to financial losses.

– Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable.

– Operational risk arising from changes to the Group's IT systems and processes, also the risk of payments being disrupted when an IBOR ceases to be available.

– Accounting risk from the failure of the Group's hedging relationships and from the unexpected volatility in income statement when the financial instruments transition to RFRs.

The table below shows the Group's exposures at the period ended 30 June 2021 to significant IBORs subject to reform that have yet to transition to RFRs. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future, i.e. it excludes exposures to IBOR that will expire before transition is required.

	At 30 June 2021			
	Non-derivative financial assets Notional amount ***HK$'000***	**Non-derivative financial liabilities Notional amount** ***HK$'000***	**Derivatives Nominal amount** ***HK$'000***	**Loan commitment Nominal amount** ***HK$'000***
USD Libor[a]	**92,583,808**	**–**	**232,682,145**	**2,228,519**
GBP Libor	**296,327**	**–**	**–**	**–**
EUR Libor	**7,308**	**–**	**–**	**–**
SGD SOR[b] or Sibor[c]	**2,733,938**	**–**	**7,139,700**	**255,437**
Total	**95,621,381**	**–**	**239,821,845**	**2,483,956**

(a) London interbank offer rate
(b) Swap offer rate
(c) Singapore interbank offer rate

The effect of IBOR reform on the Group's interest rate risk management is described in the note above. The specific impact on the Group's hedging activities is being carefully managed as part of the overall project to achieve IBOR reform. During the first half of 2021, the Group did not enter into any accounting hedge transaction.

REPORT OF THE CHIEF EXECUTIVE OFFICER

The negative impact from the COVID-19 pandemic eased off during the first half of 2021, while overall operating conditions of the banking sector improved. China CITIC Bank International Limited ("CNCBI" or "the Bank") and its subsidiaries (together "the Group") continued to implement business continuity plans as well as pandemic prevention and control measures to ensure safety of its customers and staff. At the same time, the Group proactively capitalized on business opportunities arising from the improved economic conditions and pressed ahead with the implementation of its strategic plans including the continuous transformation via Fintech adoption and the launch of bank-wide agile culture transformation in order to stimulate internal development potential. Management also strived to strike a balance between business development and risk management and has further strengthened internal control and risk management capabilities. Overall business performance improved significantly during the first half of 2021, while staff across the Bank became more confident, which should ensure high quality sustainable development of the Group.

OPERATING ENVIRONMENT

During the first half of 2021, the COVID-19 situation remained volatile, yet rising vaccination rates enabled many major economies to recover and rebound strongly.

An improving external environment, as well as Hong Kong's effectiveness in fighting the pandemic, provided the local economy with a strong boost. Hong Kong's unemployment rate dropped sharply from a peak of 7.2% in early 2021 to 5.5% in June. Economic activities also rebounded strongly, as the 8.0% rise in real GDP for the first quarter ended six consecutive quarters of contraction. Hong Kong's economy has definitively bottomed and should continue to recover.

Mainland China's economic growth accelerated in the first half of 2021, as exports rose sharply and trade surplus ballooned. Real GDP grew 7.9% in the second quarter following record growth of 18.3% in the first quarter. However, the recovery remains somewhat uneven, with private consumption lagging behind other sectors.

FINANCIAL REVIEW

The Group posted profit attributable to shareholders of HK$1.41 billion for the first half of 2021, representing a 17.0% year-on-year increase. Operating income for the first half of the year was HK$4.27 billion, up 11.8% from the same period last year. Net interest income rose 13.3% year on year to HK$2.85 billion, but net interest margin decreased by 4 basis points versus the full year of 2020 to reach 1.43% mainly because the decrease in asset yields exceeded the drop in funding costs. Non-interest income rose 8.9% to reach HK$1.42 billion mainly driven by increases in loan fee income and income from the sale of investment and insurance products. Total operating expenses remained flat at HK$1.85 billion, while the cost-to-income ratio was 43.3%. The Group was able to strengthen cost control measures and spearhead investments in technology and human capital at the same time to ensure a solid foundation for future business growth.

Impairment loss for the first half of the year was HK$749.89 million, while impaired loan ratio was 1.53%, representing a 12 basis points decrease versus that of end-December 2020. The overall quality of the Group's loan portfolio remained healthy. For the second half of the year, the Group will step up its collection efforts for impaired loans and further improve the quality of its loan portfolio.

Given the volatility of market conditions and increasing corporate credit risk, the Group was cautious in granting new credit facilities and proactively adjusted the mix of assets to enhance capital efficiency. As at 30 June 2021, total assets at HK$406.75 billion was 3.5% higher than the end-2020 level. Customer loans (including trade bills) increased by 9.0% from the end of 2020 to HK$239.86 billion on the back of a 10.5% rise in wholesale loans. Meanwhile, customer deposits (including certificates of deposit issued) amounted to HK$317.96 billion, up 2.6% from the end of 2020. The loan-to-deposit ratio remained healthy at 75.4%.

BUSINESS REVIEW

Wholesale Banking Business

Wholesale Banking Group ("WBG") spearheaded business transformation and development and strengthened overall efficiency at the same time. Firstly, customer base expanded. WBG deepened relationships with local companies of good credit quality and focused particularly on industry leaders. WBG also enhanced customer onboarding experience and corporate online banking experience in order to increase customer stickiness. On building out customer acquisition capabilities, WBG strengthened collaboration with CITIC Group's upstream and downstream customers and fine-tuned the business referral mechanism with overseas branches and the Group's subsidiary in China. As a result, customer deposit and loan balances grew steadily, up 5.3% and 10.5% respectively compared to end-2020. WBG's total income increased by 5.8% compared to the same period last year.

Secondly, WBG enhanced cross-selling capabilities and strengthened quality of its integrated services. WBG also enriched the product offering under transaction banking with the aim of providing one-stop shop integrated services to its customers. Meanwhile, syndicated loans business recorded significant growth, while the Group's ranking improved from 6th as of 2020 to 1st for the first half of 2021 in Hong Kong Syndicated Loan MLAB League Table. This demonstrates the Bank's strong market reputation and effectively promotes non-NII growth.

Thirdly, WBG continued to fine-tune and optimize its internal control mechanisms in order to improve overall efficiency and enhance integrated servicing capabilities provided by its relationship managers to its customers.

Treasury and Markets Business

During the first six months of 2021, various teams within the Treasury and Markets Group ("TMG") collaborated actively in light of a highly volatile market environment and achieved steady growth in both scale and efficiency. Total operating income for the period increased by 17.8% year on year.

The trading team continued to focus on building out its market-making business and managed to maintain a relatively stable competitive position in the market. The market-making trading volume recorded for the first half of 2021 was the highest within the past three years. The trading team's active participation in the market led to an award from the Bond Connect company as the "Outstanding commercial bank" for 2020-2021.

For client business, the corporate marketing team enhanced services provided to corporate treasury clients so that the contribution from currency-linked deposits increased from 0.3% of total income generated by the corporate marketing team as of the first half of 2020 to 29.1% as of the first half of 2021. The institutional marketing team was focused on expanding client coverage to foreign banks, tier-one Chinese securities firms and fund clients in order to increase income generated from basic products. Meanwhile, the marketing team of the Personal and Business Banking Group actively promoted FX and fixed income businesses which registered strong growth for the period under review.

The Debt Capital Markets team was very active in the bond issuance market during the first half of 2021. The team completed 104 transactions for Chinese issuers with an aggregate issuance size of US$35.77 billion, representing a 43.9% year-on-year increase. CNCBI acted as global coordinator for 59 of such transactions, up 103.4% year on year. According to Bloomberg, CNCBI ranked third amongst all Chinese financial institutions in offshore China USD bond issuance volume.

The Central Treasury Unit ("CTU") carefully managed the mismatch in the Group's liquidity gapping positions, FX funding swaps and debt securities portfolio, delivering satisfactory financial performance with a 34.2% year-on-year increase in income for the first half of the year. CTU successfully guarded against market risks arising from a series of negative China credit events and leveraged on the best timing to capture buying opportunities during market volatility.

Personal and Business Banking Business

Operating income derived from the Personal and Business Banking Group ("PBG") for the first half of the year reached a historical high, up 18.0% year on year. Investment and insurance businesses achieved the highest growth rates, which resulted in a 44.6% year-on-year increase in PBG's profits after provisioning.

At the same time, PBG's customer base grew healthily. The number of high-net-worth customers increased by 37.2% from the end of last year, mainly driven by the focus on Private Banking and CITIC*diamond* wealth management businesses as well as deeper collaboration with the CITIC Group and parent bank China CITIC Bank Corporation Limited ("CNCB"). On strategic collaborations, the Group signed a strategic cooperation agreement with China Mobile Hong Kong Company Limited in February to carry out cross-sector and cross-platform collaboration in a broad spectrum of areas.

PBG continued to further build out the inMotion mobile banking platform, improve user experience and encourage its customers to adopt the habit of utilizing digital banking services. As of end-June, the number of inMotion users increased 82.9% year on year. Unit trust and securities trading transactions conducted via digital channels increased significantly by 68.5% and 47.7% respectively versus the same period last year.

PBG launched the "future branch" concept in conjunction with its Fintech transformation plans. Following the opening of the first flagship branch in Quarry Bay in December last year, the second flagship branch was opened in Mongkok in January. The 4-storey branch has special zones for Business Banking, CITIC*diamond*, CITIC*first* and inMotion customers, with the aim of providing different customer segments with a new experience consisting of integrated online and offline banking services.

As the Group strived to fight against the COVID-19 pandemic, it has provided strong support to various relief measures launched by the HKSAR Government including the "100% Personal Loan Guarantee Scheme" which started to accept applications in April. In May, PBG launched a "Fight the Virus Together Time-Deposit Offer" in support of the HKSAR Government's call to encourage the public to get vaccinated.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Group continues to emphasize the importance of sound risk governance and strives to maintain robust risk management and internal control practices. In view of the HKMA's promotion of the comprehensive development of Fintech and the adoption of Regtech in the banking industry, the Group has started to explore strategies and plans for the application of Regtech to ensure meeting industry standards and regulatory expectations. The Group has performed stress tests and portfolio reviews on key risk areas to assess the potential impact under stressed environment (such as the on-going COVID-19 pandemic, global economic recession and heightened geopolitical tensions) on the Group's asset quality and financial positions, while appropriate risk mitigation measures were implemented as needed to reduce potential risks.

Additional resources have been deployed to enrich the risk management capabilities of the Group to ensure that it keeps abreast of new regulatory requirements and best practices. Various risk management enhancement projects and initiatives are underway to keep pace with the evolving regulatory landscape and increasingly stringent regulatory requirements. These projects include initial margining for non-centrally cleared over-the-counter derivatives etc. On the credit risk front, the Group adheres to stringent credit policies, conducts in-depth credit assessments and post-lending monitoring, and proactively performs portfolio reviews and stress tests.

BUSINESS CONTINUITY PLANS

The COVID-19 situation in Hong Kong is under control but remains volatile at times, so the Group has been closely monitoring the development of the pandemic, making necessary work arrangements according to the pandemic prevention and control measures instructed by the Hong Kong Government as well as CNCB, to ensure the safety of its customers and staff. The Group has continued to improve work-from-home capabilities, purchase more pandemic prevention equipment, increase the frequency of cleaning and ensure adequacy of pandemic prevention supplies.

In order to fight against the pandemic, the Group has continued to implement business continuity plans to ensure stable operations, keeping daily business activities on track with no occurrence of major risk incident. At the same time, the Group actively participates in the "LeaveHomeSafe" mobile APP program launched by the HKSAR Government and encourages its staff to get vaccinated. The Group will continue to closely monitor the development of the pandemic and adjust relevant measures in a timely manner to ensure that business activities can proceed smoothly.

OUTLOOK

The gradual relaxation of global pandemic prevention measures should help boost economic activities, while world GDP growth in 2021 may reach 5.6%. In Mainland China, economic growth shall slowdown in the second half of the year, but the recovery trend will remain intact. Mainland China's GDP is expected to increase by 8.8% in 2021. In Hong Kong, the pandemic is largely under control, providing support to continuous economic recovery. Hong Kong's GDP growth in 2021 may exceed 6.0%, while unemployment rate will continue to decline. Challenges remain for the overall banking industry, but the situation should continue to improve over time.

The impact from the COVID-19 pandemic is slowly diminishing but the situation remains volatile. The Group will continue to remain cautious and adjust business continuity plans in a timely manner to ensure that business activities remain on track. The Group will continue to press forward with the implementation of its 4C strategy (culture, customers, collaboration, cyberspace) and spearhead agile culture transformation via the strengthening of culture establishment; expand its customer base and enhance value contribution from customers; deepen collaboration with parent bank CNCB and the CITIC Group and exert its role as a core overseas business platform; continue to push ahead with Fintech transformation and strengthen operational and maintenance capabilities of its IT systems. The Group will also focus on the collection of large-size non-performing loans and risk mitigation and continue to enhance risk management, internal control and compliance capabilities.

The Hong Kong banking industry has shown relatively strong resilience amidst challenges arising from the pandemic and economic recession. I personally believe that the operating environment in Hong Kong shall further improve going forward and that profitability of banks will start to increase again. The Group shall ride on its solid foundation to steadfastly spearhead its new 3-year strategic plans, strive to become "the best integrated financial services provider" and create additional value for its customers, staff, shareholders and the community. I would like to take this opportunity to whole-heartedly express my gratitude to every staff member within the Group for their hard work and continuous dedication. We shall unite together and forge ahead to enable the Bank's performance to reach a new height!

Bi Mingqiang
President & Chief Executive Officer

Hong Kong, 23 August 2021