中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

2022 Interim Results Highlights

Financial Performance

In the first half of 2022, overall operating environment of banking industry was severely challenged by impact from Hong Kong's fifth wave of pandemic and turmoil of global economy and financial markets.

- **Operating income** was HK$4.11 billion, down 3.7% from same period of last year. **Net interest income** rose 4.5% to HK$2.98 billion, and **net interest margin** widened by 3 basis points versus the same period of last year to reach 1.46%. **Non-interest income** fell by 20.3% to HK$1.13 billion mainly caused by decreases in net trading income, income from debt capital markets, and net fee and commission income from investment & structured investment products.
- **Operating expenses** increased by 6.4% year on year to HK$1.96 billion. Cost-to-income ratio was 47.8%.
- **Impaired loan ratio** as at end–June 2022 was 1.04%, representing an 11 basis points increase versus that of end–December 2021.
- **Impairment losses** decreased by 12.4% to HK$0.66 billion.
- **Net profit after tax** was HK$1.32 billion, down 6.3% year on year.
- **Total assets** at HK$449.50 billion was 7.7% higher than the end of last year. **Customer loans (including trade bills)** increased by 2.0% to HK$247.64 billion. **Customer deposits (including certificates of deposit issued)** amounted to HK$337.54 billion, up 2.5%.
- **Capital adequacy ratio and CET1 ratio** met regulatory requirements at 18.5% and 11.9% respectively.

Core Businesses

Wholesales Bank business achieved decent business performance as well as steady asset quality. During the reporting period, total income and profit after provision increased by 7.8% and 29.4% respectively compared to the same period last year. Non-performing loan ratio continued to stay at a low level. Structured finance continued to play an actively role. The Group ranked top three at the end of first half of 2022 in Mandated Lead Arranger and Bookrunners in Hong Kong and Macau Syndicated Loan Market according to Refinitiv while the market share accounted for 8.05%. Furthermore, ESG-related syndicated loan grew strongly reaching HK$4.3 billion by the end of Jun 2022 representing a more than doubled increase compared to end of 2021. Trade turnover in Hong Kong achieved HK$24.9 billion, representing an increase of 16.3% compared to the same period last year. In addition, launch of IPO Receiving Bank provided more integrated transaction banking service to its customers, which improved service quality.

Treasury and Markets business managed to maintain a relatively stable competitive position in the market. According to Refinitiv, CNCBI ranked top three amongst all Chinese banks in Asia for RMB FX spot trading volume in the first six months of 2022. The Group was highly recognized in the market, named "Northbound Outstanding Commercial Bank" for the third consecutive year in "Bond Connect Awards" and also received a "Primary Market Pioneer Award" in this year. Southbound bond business achieved a breakthrough this year. Assets under custody size of Southbound bonds reached US$3.5 billion as of the end of June. With the support of parent bank CNCB and the contribution from the Southbound business, total asset size under custody achieved a huge breakthrough this year, and more than doubled in the second quarter. By the end of June, the total assets under custody reached nearly US$7 billion, registering more than four-fold increase year-on-year. The Debt Capital Markets team started Certificates of Deposit and Medium Term Notes business and achieved encouraging results in the first six months of 2022, with 243 issuances completed and volume reaching US$14.1 billion.

Personal and Business Banking business foundation remained solid despite an unprecedented challenging operating condition caused by the Hong Kong's fifth wave of the pandemic and the volatile global investment markets. Operating income of HK$1.39 billion, slightly dropped by 2.2% year-on-year. Revenue from Private Banking and Business Banking recorded 8.0% and 6.8% year-on-year growth respectively. Customer deposits grew by 10.3% and customer loans increased by 3.1% compared with 2021 year-end. Number of CITIC*diamond* customers grew by 19.2% compared with 2021 year-end, resulting in the increase of high-net-worth customer base by 11.3%. Number of digital users grew by 19.8% year-on-year and number of mobile banking flagship platform inMotion customers increased by 32.2%. The Group was awarded "The 22nd Capital Outstanding Enterprise Awards – Outstanding Private Banking Service" and received 9 accolades from Hong Kong Institute of Banker on "The 14th Outstanding Financial Management Planners Awards", including "Best Financial Planning Proposal Award" and "Top Nomination Award", demonstrating professionalism in financial planning and wealth management services.

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 2022 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 2022. 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 2022 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	**2022** *HK$'000*	2021 *HK$'000*
Interest income	*4(a)*	**4,365,799**	3,959,393
Interest expense	*4(b)*	**(1,389,529)**	(1,111,243)
Net interest income		**2,976,270**	2,848,150
Fee and commission income		**880,951**	971,057
Fee and commission expense		**(66,602)**	(71,355)
Net fee and commission income	*5*	**814,349**	899,702
Net trading income	*6*	**316,265**	478,876
Net (loss)/gain on disposal of financial assets at fair value through other comprehensive income		**(5,054)**	31,013
Other operating income	*7*	**5,999**	9,594
Operating income		**4,107,829**	4,267,335
Operating expenses	*8*	**(1,964,341)**	(1,846,513)
Operating profit before impairment		**2,143,488**	2,420,822
Expected credit losses on financial assets	*9*	**(696,884)**	(763,624)
Impairment losses reversed on other assets		**39,822**	13,731
Impairment losses		**(657,062)**	(749,893)
Operating profit		**1,486,426**	1,670,929
Net gain/(loss) on disposal of property and equipment and intangible assets		**121**	(4)
Revaluation (loss)/gain on investment properties	*18*	**(5,840)**	6,212
Profit before taxation		**1,480,707**	1,677,137
Income tax	*10*	**(159,836)**	(267,096)
Profit for the period		**1,320,871**	1,410,041
Profit attributable to shareholders		**1,320,871**	1,410,041

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2022 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
Profit for the period	**1,320,871**	1,410,041
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	**(63,507)**	15,849
Financial assets at fair value through other comprehensive income		
– change in the fair value of debt instruments	**(1,312,901)**	(169,944)
– transfer to income statement on disposal	**5,054**	(31,013)
– deferred tax related to the above	**214,404**	33,286
– transfer to income statement on impairment	**48,149**	59,572
	(1,045,294)	(108,099)
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	**10,578**	(30,688)
– deferred tax related to the above	**(1,745)**	5,064
	8,833	(25,624)
Other comprehensive loss for the period	**(1,099,968)**	(117,874)
Total comprehensive income for the period	**220,903**	1,292,167
Total comprehensive income attributable to shareholders	**220,903**	1,292,167

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2022 – unaudited
(Expressed in Hong Kong dollars)

	Note	At 30 June 2022 HK$'000	At 31 December 2021 HK$'000
ASSETS			
Cash and balances with banks and central banks	11	**28,034,178**	28,828,450
Placements with and advances to banks	12	**33,513,297**	21,058,640
Financial assets at fair value through profit or loss	13(a)	**1,841,340**	3,106,275
Derivative financial instruments	14(b)	**17,720,339**	8,888,842
Loans and advances to customers and other accounts	15	**267,498,378**	249,416,421
Financial assets at fair value through other comprehensive income	16	**98,573,509**	103,926,448
Amortised cost investments	17	**58,049**	53,375
Property and equipment	18		
– Investment properties		**440,767**	446,607
– Other premises and equipment		**457,859**	479,209
Right-of-use assets	19	**433,118**	559,103
Intangible assets	20	**486,196**	539,779
Deferred tax assets	23(b)	**439,978**	168,886
Total assets		**449,497,008**	417,472,035
LIABILITIES AND EQUITY			
Liabilities			
Deposits and balances of banks and other financial institutions		**10,306,883**	13,584,427
Deposits from customers	21	**336,054,315**	327,768,033
Financial liabilities at fair value through profit or loss	13(b)	**552,414**	768,006
Derivative financial instruments	14(b)	**16,625,527**	8,766,335
Certificates of deposit issued	22	**1,490,558**	1,481,389
Current tax liabilities	23(a)	**320,181**	120,708
Deferred tax liabilities	23(b)	**1,691**	1,541
Lease liabilities		**465,274**	592,621
Loan capital	24	**3,910,378**	3,883,863
Other liabilities	25	**25,289,576**	10,718,536
Total liabilities		**395,016,797**	367,685,459
Equity			
Share capital	26(a)	**18,404,013**	18,404,013
Reserves		**22,833,474**	22,827,746
Total shareholders' equity		**41,237,487**	41,231,759
Other equity instruments	27	**13,242,724**	8,554,817
Total equity		**54,480,211**	49,786,576
Total equity and liabilities		**449,497,008**	417,472,035

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2022 – unaudited
(Expressed in Hong Kong dollars)

	Share capital *HK$'000*	Capital reserve *HK$'000*	General reserve *HK$'000*	Exchange differences reserve *HK$'000*	Property revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Statutory reserve *HK$'000*	Regulatory general reserve *HK$'000*	Retained profits *HK$'000*	Total reserves *HK$'000*	Other equity instruments *HK$'000*	Total equity *HK$'000*
At 1 January 2022	**18,404,013**	**6,589**	**100,000**	**51,538**	**294,533**	**160,597**	**62,835**	**180,267**	**21,971,387**	**22,827,746**	**8,554,817**	**49,786,576**
Changes in equity for the six months ended 30 June 2022:												
Profit for the period	–	–	–	–	–	–	–	–	**1,320,871**	**1,320,871**	–	**1,320,871**
Other comprehensive loss for the period	–	–	–	**(63,507)**	**–**	**(1,036,461)**	–	–	–	**(1,099,968)**	–	**(1,099,968)**
Total comprehensive income for the period	–	–	–	**(63,507)**	**–**	**(1,036,461)**	–	–	**1,320,871**	**220,903**	**–**	**220,903**
Transfer from/(to) retained profits	–	–	–	–	–	–	**(21)**	**10,694**	**(10,673)**	**–**	**–**	**–**
Issue of Additional Tier 1 Capital Securities ("AT1 Capital Securities")	–	–	–	–	–	–	–	–	**–**	**–**	**4,687,907**	**4,687,907**
Distribution payment for AT1 Capital Securities	–	–	–	–	–	–	–	–	**(215,175)**	**(215,175)**	**–**	**(215,175)**
At 30 June 2022	**18,404,013**	**6,589**	**100,000**	**(11,969)**	**294,533**	**(875,864)**	**62,814**	**190,961**	**23,066,410**	**22,833,474**	**13,242,724**	**54,480,211**
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/(loss) 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 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 July 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
Changes in equity for the six months ended 31 December 2021:												
Profit for the period	–	–	–	–	–	–	–	–	718,397	718,397	–	718,397
Other comprehensive income/(loss) for the period	–	–	–	32,341	159,602	(298,700)	–	–	–	(106,757)	–	(106,757)
Total comprehensive income for the period	–	–	–	32,341	159,602	(298,700)	–	–	718,397	611,640	–	611,640
Transfer from retained profits	–	–	–	–	–	–	2,727	30,767	(33,494)	–	–	–
Distribution payment for AT1 Capital Securities	–	–	–	–	–	–	–	–	(220,871)	(220,871)	–	(220,871)
Issue of AT1 Capital Securities	–	–	–	–	–	–	–	–	–	–	4,647,489	4,647,489
Redemption of AT1 Capital Securities	–	–	–	–	–	–	–	–	(27,998)	(27,998)	(3,863,084)	(3,891,082)
At 31 December 2021	18,404,013	6,589	100,000	51,538	294,533	160,597	62,835	180,267	21,971,387	22,827,746	8,554,817	49,786,576

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2022 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2022	2021
	Note	***HK$'000***	*HK$'000*
Net cash flows generated from/(used in) operating activities	*28(a)*	**7,252,677**	(7,610,457)
Cash flows generated from/(used in) investing activities			
Dividends received from equity securities		**2,290**	2,490
Proceeds from disposal of property and equipment and intangible assets		**298**	55
Purchase of property and equipment and intangible assets		**(118,553)**	(126,205)
Net cash flows used in investing activities		**(115,965)**	(123,660)
Cash flows generated from/(used in) financing activities			
Proceeds from AT1 Capital Securities issuance		**4,687,907**	–
Distribution paid on AT1 Capital Securities		**(215,175)**	(220,561)
Payment of lease liabilities		**(155,850)**	(158,581)
Interest paid on loan capital		**(90,346)**	(89,761)
Net cash flows generated from/(used in) financing activities		**4,226,536**	(468,903)
Net increase/(decrease) in cash and cash equivalents		**11,363,248**	(8,203,020)
Cash and cash equivalents at 1 January		**67,854,091**	78,305,049
Exchange differences in respect of cash and cash equivalents		**(551,897)**	37,894
Cash and cash equivalents at 30 June	*28(b)*	**78,665,442**	70,139,923

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 2021 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 2021.

The financial information relating to the year ended 31 December 2021 that is included in the interim financial report for the six months ended 30 June 2022 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 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The 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).

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

This interim financial report has been prepared on a basis consistent with the accounting policies adopted in the 2021 annual financial statements, which have been prepared in accordance with HKFRSs.

Amendments to HKFRSs effective for the financial year ending 31 December 2022 do not have a material impact on the Group.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

(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 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, 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.

(3) SEGMENT REPORTING (CONTINUED)

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

Segment allocation and cost allocation amongst reportable segments are reviewed from time to time as management deems fit and in the event of change, corresponding segment reporting information will be updated to conform with latest allocation basis.

(a) Reportable segments

	Six months ended 30 June 2022				
	Wholesale banking *HK$'000*	**Personal and business banking** *HK$'000*	**Treasury and markets** *HK$'000*	**Others** *HK$'000*	**Consolidated** *HK$'000*
Net interest income	**1,654,854**	**871,702**	**305,408**	**144,306**	**2,976,270**
Other operating income	**461,619**	**518,555**	**112,350**	**44,089**	**1,136,613**
Net (loss)/gain on disposal of financial assets at fair value through other comprehensive income	**(275)**	**–**	**(16,251)**	**11,472**	**(5,054)**
Operating income	**2,116,198**	**1,390,257**	**401,507**	**199,867**	**4,107,829**
Operating expenses	**(232,504)**	**(497,194)**	**(108,811)**	**(1,125,832)**	**(1,964,341)**
Inter-segment (expenses)/income	**(104,651)**	**(317,032)**	**(77,677)**	**499,360**	**–**
Operating profit/(loss) before impairment	**1,779,043**	**576,031**	**215,019**	**(426,605)**	**2,143,488**
Expected credit losses on financial assets	**(513,034)**	**(99,655)**	**(67,412)**	**(16,783)**	**(696,884)**
Impairment losses reversed on other assets	**–**	**–**	**–**	**39,822**	**39,822**
Operating profit/(loss)	**1,266,009**	**476,376**	**147,607**	**(403,566)**	**1,486,426**
Net (loss)/gain on disposal of property and equipment and intangible assets	**(19)**	**(52)**	**–**	**192**	**121**
Revaluation loss on investment properties	**–**	**–**	**–**	**(5,840)**	**(5,840)**
Profit/(loss) before taxation	**1,265,990**	**476,324**	**147,607**	**(409,214)**	**1,480,707**
Income tax					**(159,836)**
Profit for the period					**1,320,871**
Other segment items:					
Depreciation and amortisation	**16,639**	**19,603**	**98**	**301,126**	**337,466**
	At 30 June 2022				
Other segment items:					
Segment assets *(note)*	**174,806,798**	**79,726,163**	**200,520,780**	**(5,556,733)**	**449,497,008**
Segment liabilities *(note)*	**186,877,289**	**173,903,857**	**39,098,214**	**(4,862,563)**	**395,016,797**
Capital expenditure incurred during the period	**319**	**15,416**	**17**	**102,801**	**118,553**

Notes:
Segment assets and segment liabilities included inter-segment elimination of HK$29,827,753,000 and HK$29,087,165,000 respectively under the 'Others' segment.

(3) SEGMENT REPORTING (CONTINUED)

(a) Reportable segments (continued)

	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	397,584	588,224	366,367	35,997	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	1,962,689	1,421,110	723,852	159,684	4,267,335
Operating expenses	(211,520)	(473,075)	(87,745)	(1,074,173)	(1,846,513)
Inter-segment (expenses)/income	(90,516)	(274,097)	(72,760)	437,373	–
Operating profit/(loss) before impairment	1,660,653	673,938	563,347	(477,116)	2,420,822
Expected credit losses on financial assets	(682,282)	(3,992)	(52,332)	(25,018)	(763,624)
Impairment losses reversed on other assets	–	–	–	13,731	13,731
Operating profit/(loss)	978,371	669,946	511,015	(488,403)	1,670,929
Net (loss)/gain on disposal of property and equipment and intangible assets	–	(35)	–	31	(4)
Revaluation gain on investment properties	–	–	–	6,212	6,212
Profit/(loss) before taxation	978,371	669,911	511,015	(482,160)	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 31 December 2021				
Other segment items:					
Segment assets	172,279,814	77,295,134	172,720,857	(4,823,770)	417,472,035
Segment liabilities	196,146,760	158,022,633	18,767,503	(5,251,437)	367,685,459
Capital expenditure incurred during the year	3,921	48,557	134	210,426	263,038

(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			
	2022	2021	**2022**	2021
	Profit before taxation	Profit before taxation	**Operating income/(expenses)**	Operating income/(expenses)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**1,211,842**	1,496,322	**3,637,872**	3,855,626
Mainland China	**100,015**	39,904	**196,281**	150,025
United States	**103,044**	72,055	**161,705**	151,674
Singapore	**61,845**	41,533	**118,380**	80,121
Others	**3,900**	27,317	**19,830**	45,504
Inter-segment items	**61**	6	**(26,239)**	(15,615)
	1,480,707	1,677,137	**4,107,829**	4,267,335

	At 30 June 2022	At 31 December 2021	**At 30 June 2022**	At 31 December 2021
	Total assets	Total assets	**Total liabilities**	Total liabilities
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**415,289,834**	384,219,693	**361,365,141**	334,994,296
Mainland China	**17,254,718**	13,956,128	**15,652,372**	12,343,871
United States	**16,922,203**	14,123,627	**16,862,183**	13,994,907
Singapore	**20,830,705**	22,341,162	**20,766,660**	22,220,452
Others	**2,909,558**	2,389,053	**2,830,553**	2,314,730
Inter-segment items	**(23,710,010)**	(19,557,628)	**(22,460,112)**	(18,182,797)
	449,497,008	417,472,035	**395,016,797**	367,685,459

(4) INTEREST INCOME AND INTEREST EXPENSE

(a) Interest income

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
Listed securities	**550,845**	561,574
Unlisted securities	**188,111**	144,379
Balances and placements with banks and advances to banks	**119,515**	55,543
Advances and other accounts *(Note)*	**3,507,328**	3,197,897
Interest income on financial assets	**4,365,799**	3,959,393
Of which:		
Interest income on financial assets measured at amortised cost	**3,648,109**	3,278,713
Interest income on financial assets measured at fair value through other comprehensive income	**717,690**	680,680
	4,365,799	3,959,393

Note:

For six months ended 30 June 2022, interest income from impaired financial assets was HK$43,686,000 (six months ended 30 June 2021: HK$84,096,000).

(4) INTEREST INCOME AND INTEREST EXPENSE (CONTINUED)

(b) Interest expense

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
Deposits from customers	**1,199,001**	936,309
Deposits from banks, other financial institutions	**84,148**	69,339
Certificates of deposit issued	**4,331**	1,113
Loan capital issued	**92,955**	92,142
Lease liabilities	**9,094**	12,340
Interest expense on financial liabilities measured at amortised cost	**1,389,529**	1,111,243

(5) NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
Fee and commission income		
Bills commission	**41,342**	36,206
Card-related income	**18,947**	15,209
Banking services	**61,628**	73,286
Debt capital markets	**37,941**	171,488
Insurance	**293,595**	298,788
Investment and structured investment products	**119,599**	183,623
Loans, overdrafts and facilities fees	**306,830**	191,386
Others	**1,069**	1,071
	880,951	971,057
Fee and commission expense	**(66,602)**	(71,355)
	814,349	899,702
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	**367,119**	242,801
– Fee and commission expense	**(14,086)**	(16,393)
	353,033	226,408

(6) NET TRADING INCOME

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
Net gains from dealing in foreign currencies	**255,492**	293,510
Net losses from financial assets at fair value through profit or loss	**(21,129)**	(11,467)
Net losses from other dealing activities	**(34,576)**	(81,911)
Net interest income on trading activities		
– Listed	**9,411**	55,794
– Unlisted	**107,067**	222,950
	316,265	478,876

(7) OTHER OPERATING INCOME

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
Dividend income		
– Unlisted investments	**2,290**	2,490
Rental income from investment properties less direct outgoings of HK$117,000 (six months ended 30 June 2021: HK$88,000)	**1,851**	1,626
Others	**1,858**	5,478
	5,999	9,594

(8) OPERATING EXPENSES

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
(a) Staff costs		
Salaries and other staff costs	**1,162,819**	1,040,765
Retirement costs	**73,420**	68,402
	1,236,239	1,109,167
(b) Depreciation and amortisation		
Depreciation – property and equipment *(note 18)*	**73,641**	55,598
Depreciation – right-of-use assets *(note 19)*	**145,494**	150,077
Amortisation – intangible assets *(note 20)*	**118,331**	121,856
	337,466	327,531
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)	**173,045**	179,166
Auditors' remuneration		
– Audit related service	**4,774**	4,180
– Non-audit related service	**1,011**	1,322
Advertising	**16,030**	32,497
Communication, printing and stationery	**77,263**	79,107
Electronic data processing	**64,553**	50,379
Legal and professional fees	**24,198**	28,124
Others	**29,762**	35,040
	390,636	409,815
Total operating expenses	**1,964,341**	1,846,513

(9) EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS

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

	Six months ended 30 June 2022			
	Stage 1 *HK$'000*	**Stage 2** *HK$'000*	**Stage 3** *HK$'000*	**Total** *HK$'000*
Balances with banks and central banks	**1,275**	**–**	**–**	**1,275**
Placements with and advances to banks	**18,580**	**–**	**–**	**18,580**
Loans and advances to customers and other accounts	**(197,827)**	**535,174**	**392,673**	**730,020**
Financial assets at fair value through other comprehensive income	**1,116**	**31,995**	**15,038**	**48,149**
Amortised cost investments	**1**	**–**	**–**	**1**
Loan commitments and guarantees (included in contingent liabilities and commitments)	**(25,707)**	**12,473**	**–**	**(13,234)**
	(202,562)	**579,642**	**407,711**	**784,791**
Recoveries				**(87,907)**
				696,884

	Six months ended 30 June 2021			
	Stage 1 *HK$'000*	Stage 2 *HK$'000*	Stage 3 *HK$'000*	Total *HK$'000*
Balances with banks and central banks	496	–	–	496
Placements with and advances to banks	(5,755)	–	–	(5,755)
Loans and advances to customers and other accounts	66,500	(24,639)	685,783	727,644
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

(10) INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the period	**207,971**	148,278
Over-provision in respect of prior periods	**(41,000)**	(22,746)
	166,971	125,532
Current tax – Taxation outside Hong Kong		
Provision for the period	**49,405**	42,669
Under-provision in respect of prior periods	**1,640**	–
	51,045	42,669
Deferred tax		
Origination of temporary differences (note 23(b))	**(58,180)**	98,895
	159,836	267,096

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 2021: 16.5%) of the estimated assessable profits for six months ended 30 June 2022. Taxation for overseas branches and subsidiaries are charged at the appropriate current rates of taxation in the relevant countries.

(11) CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	At 30 June	At 31 December
	2022	2021
	HK$'000	*HK$'000*
Cash in hand	**202,354**	236,236
Balances with central banks	**10,395,613**	14,671,889
Balances with banks	**17,442,153**	13,924,992
	28,040,120	28,833,117
Expected credit losses allowances – Stage 1	**(5,942)**	(4,667)
	28,034,178	28,828,450

Included in the balances with central banks are balances subject to exchange control or regulatory restrictions, amounting to HK$638,748,000 at 30 June 2022 (31 December 2021: HK$597,533,000).

(12) PLACEMENTS WITH AND ADVANCES TO BANKS

	At 30 June 2022 *HK$'000*	At 31 December 2021 *HK$'000*
Placements with banks	**32,791,328**	20,647,800
Advances to banks	**746,435**	416,726
	33,537,763	21,064,526
Expected credit losses allowances – Stage 1	**(24,466)**	(5,886)
	33,513,297	21,058,640
Maturing:		
– Within 1 month	**23,437,785**	19,846,311
– Between 1 month and 1 year	**10,075,512**	1,212,329
	33,513,297	21,058,640

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

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

	At 30 June 2022 *HK$'000*	At 31 December 2021 *HK$'000*
Debt securities	**1,053,928**	2,006,507
Treasury bills	**787,412**	1,099,768
	1,841,340	3,106,275
Issued by:		
Sovereigns	**1,151,554**	2,104,669
Banks and other financial institutions	**552,406**	681,738
Corporate entities	**137,380**	319,071
Public entities	**–**	797
	1,841,340	3,106,275
Listed	**1,049,196**	1,633,424
Unlisted	**792,144**	1,472,851
	1,841,340	3,106,275

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

	At 30 June 2022 *HK$'000*	At 31 December 2021 *HK$'000*
Short sale of debt securities	**552,414**	768,006

(14) 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 2022	At 31 December 2021
	HK$'000	*HK$'000*
Currency derivatives		
Forwards	**70,822,660**	56,738,442
Swaps	**1,029,671,200**	964,903,705
Options purchased	**30,014,231**	24,249,234
Options written	**23,961,836**	22,123,956
Interest rate derivatives		
Forwards/Futures	**525,618**	27,289
Swaps	**781,202,697**	606,576,660
Options purchased	**3,055,119**	3,036,325
Options written	**3,055,119**	3,036,325
	1,942,308,480	1,680,691,936

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 2022 and year ended 31 December 2021, there were no derivatives held for hedging.

(b) Fair values of derivatives

	At 30 June 2022		At 31 December 2021	
	Fair value assets	**Fair value liabilities**	Fair value assets	Fair value liabilities
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Currency derivatives	**9,140,751**	**8,095,230**	5,755,146	5,751,550
Interest rate derivatives	**8,579,588**	**8,530,297**	3,133,696	3,014,785
	17,720,339	**16,625,527**	8,888,842	8,766,335

(14) 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 2022			
	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	**1,154,469,927**	**1,069,784,160**	**83,066,934**	**1,618,833**
Interest rate derivatives	**787,838,553**	**315,857,538**	**437,045,064**	**34,935,951**
	1,942,308,480	**1,385,641,698**	**520,111,998**	**36,554,784**

	At 31 December 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	1,068,015,337	1,010,810,515	55,704,806	1,500,016
Interest rate derivatives	612,676,599	207,802,894	369,021,467	35,852,238
	1,680,691,936	1,218,613,409	424,726,273	37,352,254

(15) LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

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

	At 30 June 2022 ***HK$'000***	At 31 December 2021 *HK$'000*
Gross loans and advances to customers	**247,637,426**	242,667,031
– Expected credit losses allowances	**(2,075,492)**	(1,871,846)
	245,561,934	240,795,185
Other accounts	**22,351,305**	8,967,557
– Expected credit losses allowances	**(414,861)**	(346,321)
	21,936,444	8,621,236
	267,498,378	249,416,421

(15) 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 2022		At 31 December 2021	
	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	**8,861,568**	**69**	8,951,242	64
– Property investment	**16,450,453**	**99**	15,064,324	98
– Financial concerns	**17,993,378**	**7**	14,866,601	10
– Stockbrokers	**4,766,942**	**27**	4,616,449	45
– Wholesale and retail trade	**9,873,118**	**88**	8,813,954	87
– Manufacturing	**5,158,824**	**34**	6,149,656	26
– Transport and transport equipment	**2,856,982**	**17**	2,207,235	23
– Recreational activities	**1,091,802**	**4**	1,396,460	15
– Information technology	**3,936,628**	**6**	4,140,974	4
– Others	**10,355,060**	**73**	12,106,121	62
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**18,083**	**100**	18,734	100
– Loans for the purchase of other residential properties	**23,183,512**	**100**	22,708,364	100
– Credit card advances	**478,897**	**–**	634,385	–
– Others	**19,911,710**	**93**	19,463,914	93
Gross loans and advances for use in Hong Kong	**124,936,957**	**68**	121,138,413	68
Trade finance	**7,974,918**	**18**	6,628,733	22
Gross loans and advances for use outside Hong Kong	**114,725,551**	**20**	114,899,885	19
Gross loans and advances to customers	**247,637,426**	**45**	242,667,031	44

(15) 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

	2022							
	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 2022	**238,791,588**	**1,143,819**	**9,877,360**	**174,967**	**2,599,090**	**899,381**	**251,268,038**	**2,218,167**
Transfer:								
– Transfer to Stage 1	**1,956,696**	**31,159**	**(1,956,696)**	**(31,159)**	**–**	**–**	**–**	**–**
– Transfer to Stage 2	**(9,765,400)**	**(156,009)**	**9,769,640**	**156,101**	**(4,240)**	**(92)**	**–**	**–**
– Transfer to Stage 3	**(58,000)**	**(531)**	**(895,363)**	**(94,664)**	**953,363**	**95,195**	**–**	**–**
Net remeasurement of ECL allowances arising from transfer between stage	**–**	**(11,501)**	**–**	**250,840**	**–**	**28,265**	**–**	**267,604**
Net financial assets originated/ (derecognised or repaid)	**20,491,327**	**48,230**	**(1,650,817)**	**(52,477)**	**(147,100)**	**(19,258)**	**18,693,410**	**(23,505)**
Changes in risk parameters, model inputs and management overlay	**–**	**(109,175)**	**–**	**306,533**	**–**	**288,563**	**–**	**485,921**
Amounts written-off	**–**	**–**	**–**	**–**	**(484,664)**	**(484,664)**	**(484,664)**	**(484,664)**
Other movements	**–**	**–**	**–**	**–**	**69,481**	**26,830**	**69,481**	**26,830**
At 30 June 2022	**251,416,211**	**945,992**	**15,144,124**	**710,141**	**2,985,930**	**834,220**	**269,546,265**	**2,490,353**

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

	At 30 June 2022							
	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	**229,921,703**	**945,462**	**15,144,124**	**710,141**	**2,571,599**	**419,889**	**247,637,426**	**2,075,492**
Other accounts *(note)*	**21,494,508**	**530**	**–**	**–**	**414,331**	**414,331**	**21,908,839**	**414,861**
	251,416,211	**945,992**	**15,144,124**	**710,141**	**2,985,930**	**834,220**	**269,546,265**	**2,490,353**

(15) 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)

	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
Transfer:								
– Transfer to Stage 1	6,880,189	258,654	(6,830,158)	(258,650)	(50,031)	(4)	–	–
– Transfer to Stage 2	(11,024,368)	(19,606)	11,058,812	23,617	(34,444)	(4,011)	–	–
– Transfer to Stage 3	(139,020)	(83)	(1,662,740)	(49,773)	1,801,760	49,856	–	–
Net remeasurement of ECL allowances arising from transfer between stage	–	(106,253)	–	81,919	–	250,161	–	225,827
Net financial assets originated/ (derecognised or repaid)	28,306,899	353,438	(3,184,178)	(149,094)	(854,373)	(95,467)	24,268,348	108,877
Changes in risk parameters, model inputs and management overlay	–	67,914	–	(50,792)		1,451,706	–	1,468,828
Amounts written-off	–	–	–	–	(2,326,537)	(2,326,537)	(2,326,537)	(2,326,537)
Other movements	–	–	–	–	180,464	48,858	180,464	48,858
At 31 December 2021	238,791,588	1,143,819	9,877,360	174,967	2,599,090	899,381	251,268,038	2,218,167

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

	At 31 December 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	230,535,431	1,142,348	9,877,360	174,967	2,254,240	554,531	242,667,031	1,871,846
Other accounts *(note)*	8,256,157	1,471	–	–	344,850	344,850	8,601,007	346,321
	238,791,588	1,143,819	9,877,360	174,967	2,599,090	899,381	251,268,038	2,218,167

Note:

The gross carrying amounts and related ECL allowances have 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 impairment requirements under HKFRS 9.

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

(d) Impaired loans and advances to customers

	At 30 June 2022 *HK$'000*	At 31 December 2021 *HK$'000*
Gross impaired loans and advances to customers	**2,571,599**	2,254,240
Expected credit losses allowances – Stage 3	**(419,889)**	(554,531)
	2,151,710	1,699,709
Gross impaired loans and advances as a % of total loans and advances to customers	**1.04%**	0.93%

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

The secured gross impaired loans and advances to customers amounts to HK$1,566,110,000 (31 December 2021: HK$1,646,035,000) are backed by collateral, collateral mainly comprises mortgages on residential or commercial properties and cash placed with the Group.

An analysis of the ECL allowances and gross amount of impaired loans and advances by industry sectors, which the sector's loans and advances to customer accounted for 10% or more of the total gross loans and advances to customers, is as follows:

	At 30 June 2022			
	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*
Loans and advances for use outside Hong Kong	**669,351**	**658,369**	**139,400**	**1,536,958**

	At 31 December 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*
Loans and advances for use outside Hong Kong	936,744	58,840	258,475	1,086,034

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

	At 30 June 2022 *HK$'000*	At 31 December 2021 *HK$'000*
Debt securities		
Certificates of deposit held	**6,932,039**	4,490,521
Treasury bills	**30,040,484**	39,187,201
Other debt securities	**61,511,569**	60,169,857
	98,484,092	103,847,579
Equity securities	**89,417**	78,869
	98,573,509	103,926,448
Issued by:		
Sovereigns	**40,875,039**	43,215,443
Banks and other financial institutions	**41,005,224**	43,364,259
Corporate entities	**14,206,013**	15,281,446
Public entities	**2,487,233**	2,065,300
	98,573,509	103,926,448
Listed	**52,959,839**	53,763,088
Unlisted	**45,613,670**	50,163,360
	98,573,509	103,926,448

(17) AMORTISED COST INVESTMENTS

	At 30 June 2022 *HK$'000*	At 31 December 2021 *HK$'000*
Debt securities		
Treasury bills	**58,053**	53,378
– Expected credit losses allowances – Stage 1	**(4)**	(3)
	58,049	53,375
Issued by:		
Sovereigns	**58,049**	53,375
Unlisted	**58,049**	53,375

(18) 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 2022	**446,607**	**616,996**	**1,178,241**	**2,241,844**
Additions	**–**	**–**	**53,412**	**53,412**
Disposals	**–**	**–**	**(16,036)**	**(16,036)**
Deficit on revaluation	**(5,840)**	**–**	**–**	**(5,840)**
Exchange adjustments	**–**	**–**	**(4,140)**	**(4,140)**
At 30 June 2022	**440,767**	**616,996**	**1,211,477**	**2,269,240**
At 1 January 2021	254,830	661,671	1,100,813	2,017,314
Additions	–	–	111,588	111,588
Reclassification	185,000	(185,000)	–	–
Disposals	–	–	(35,831)	(35,831)
Surplus on revaluation	6,777	159,602	–	166,379
Elimination of accumulated depreciation on revaluation	–	(19,277)	–	(19,277)
Exchange adjustments	–	–	1,671	1,671
At 31 December 2021	446,607	616,996	1,178,241	2,241,844
Accumulated depreciation:				
At 1 January 2022	**–**	**367,239**	**948,789**	**1,316,028**
Charge for the period *(note 8(b))*	**–**	**7,734**	**65,907**	**73,641**
Written back on disposals	**–**	**–**	**(15,982)**	**(15,982)**
Exchange adjustments	**–**	**–**	**(3,073)**	**(3,073)**
At 30 June 2022	**–**	**374,973**	**995,641**	**1,370,614**
At 1 January 2021	–	370,807	879,871	1,250,678
Charge for the year	–	15,709	102,699	118,408
Elimination of accumulated depreciation on revaluation	–	(19,277)	–	(19,277)
Written back on disposals	–	–	(34,820)	(34,820)
Exchange adjustments	–	–	1,039	1,039
At 31 December 2021	–	367,239	948,789	1,316,028
Net book value:				
At 30 June 2022	**440,767**	**242,023**	**215,836**	**898,626**
At 31 December 2021	446,607	249,757	229,452	925,816

(18) 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 2022 with reference to a property valuation report which was conducted by an independent firm of surveyors, who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. 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 deficit of HK$5,840,000 (year ended 31 December 2021: a revaluation surplus of HK$6,777,000; and six month ended 30 June 2021: a revaluation surplus of HK$6,212,000) was recognised by the Group and has been charged to the consolidated income statement for the six month ended 30 June 2022.

(19) RIGHT-OF-USE ASSETS

	Leased premises ***HK$'000***	**Equipment and others** ***HK$'000***	**Total** ***HK$'000***
Cost:			
At 1 January 2022	**1,127,117**	**1,876**	**1,128,993**
Additions	**21,696**	**–**	**21,696**
Reductions	**(51,678)**	**–**	**(51,678)**
Exchange adjustments	**(4,237)**	**(43)**	**(4,280)**
At 30 June 2022	**1,092,898**	**1,833**	**1,094,731**
Cost:			
At 1 January 2021	1,182,297	1,170	1,183,467
Additions	168,310	731	169,041
Reductions	(99,417)	–	(99,417)
Adjustments	(124,696)	–	(124,696)
Exchange adjustments	623	(25)	598
At 31 December 2021	1,127,117	1,876	1,128,993
Accumulated depreciation:			
At 1 January 2022	**568,648**	**1,242**	**569,890**
Charge for the period *(note 8(b))*	**145,344**	**150**	**145,494**
Reductions	**(51,678)**	**–**	**(51,678)**
Exchange adjustments	**(2,062)**	**(31)**	**(2,093)**
At 30 June 2022	**660,252**	**1,361**	**661,613**
Accumulated depreciation:			
At 1 January 2021	485,859	955	486,814
Charge for the year	297,456	303	297,759
Reductions	(99,417)	–	(99,417)
Adjustments	(115,676)	–	(115,676)
Exchange adjustments	426	(16)	410
At 31 December 2021	568,648	1,242	569,890
Net book value:			
At 30 June 2022	**432,646**	**472**	**433,118**
At 31 December 2021	558,469	634	559,103

(20) INTANGIBLE ASSETS

	Software *HK$'000*
Cost:	
At 1 January 2022	**1,784,995**
Additions	**65,141**
Disposals	**(2,623)**
Exchange adjustments	**(2,219)**
At 30 June 2022	**1,845,294**
At 1 January 2021	1,636,220
Additions	151,450
Disposals	(3,232)
Exchange adjustments	557
At 31 December 2021	1,784,995
Accumulated amortisation:	
At 1 January 2022	**1,245,216**
Charge for the period *(note 8(b))*	**118,331**
Disposals	**(2,500)**
Exchange adjustments	**(1,949)**
At 30 June 2022	**1,359,098**
At 1 January 2021	1,001,119
Charge for the year	244,816
Disposals	(1,184)
Exchange adjustments	465
At 31 December 2021	1,245,216
Net book value:	
At 30 June 2022	**486,196**
At 31 December 2021	539,779

(21) DEPOSITS FROM CUSTOMERS

	At 30 June 2022 *HK$'000*	At 31 December 2021 *HK$'000*
Demand deposits and current deposits	**45,569,210**	47,967,296
Savings deposits	**71,789,102**	79,244,545
Time, call and notice deposits	**218,696,003**	200,556,192
	336,054,315	327,768,033

(22) CERTIFICATES OF DEPOSIT ISSUED

	At 30 June 2022 *HK$'000*	At 31 December 2021 *HK$'000*
At amortised cost	**1,490,558**	1,481,389

Certificates of deposit issued are the Yankee bonds issued by the US branches of the Group.

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

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

	At 30 June 2022 *HK$'000*	At 31 December 2021 *HK$'000*
Hong Kong Profits Tax	**262,387**	89,716
Taxation outside Hong Kong	**57,794**	30,992
	320,181	120,708
Of which:		
Tax recoverable	**–**	–
Current tax liabilities	**320,181**	120,708
	320,181	120,708

(23) 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 2022	**102,379**	**(249,099)**	**1,541**	**(9,893)**	**–**	**(12,273)**	**(167,345)**
Credited to consolidated income statement *(note 10)*	**(5,752)**	**(49,736)**	**(418)**	**–**	**–**	**(2,274)**	**(58,180)**
Credited to reserves	**–**	**–**	**–**	**(212,659)**	**–**	**–**	**(212,659)**
Exchange and other adjustments	**12**	**(316)**	**–**	**(1)**	**–**	**202**	**(103)**
At 30 June 2022	**96,639**	**(299,151)**	**1,123**	**(222,553)**	**–**	**(14,345)**	**(438,287)**
At 1 January 2021	117,322	(229,402)	904	86,069	(138,416)	(9,680)	(173,203)
Charged/(credited) to consolidated income statement	(14,916)	(19,776)	637	–	137,729	(2,519)	101,155
Credited to reserves	–	–	–	(95,962)	–	–	(95,962)
Exchange and other adjustments	(27)	79	–	–	687	(74)	665
At 31 December 2021	102,379	(249,099)	1,541	(9,893)	–	(12,273)	(167,345)

	At 30 June 2022 ***HK$'000***	At 31 December 2021 *HK$'000*
Net deferred tax assets recognised in the consolidated statement of financial position	**(439,978)**	(168,886)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**1,691**	1,541
	(438,287)	(167,345)

(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 2022 (31 December 2021: 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.

(24) LOAN CAPITAL

	At 30 June 2022 *HK$'000*	At 31 December 2021 *HK$'000*
Subordinated notes, at amortised cost:		
US$500 million Subordinated Fixed Rate Notes at 4.625%, due 2029*	**3,910,378**	3,883,863

* Under 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.

(25) OTHER LIABILITIES

	At 30 June 2022 *HK$'000*	At 31 December 2021 *HK$'000*
Accruals and other payables and provisions	**22,892,707**	8,388,557
Deposit from an immediate holding company	**2,396,869**	2,329,979
	25,289,576	10,718,536

At 30 June 2022, included above is the expected credit losses allowances on loan commitments and guarantees for Stages 1 and 2 amounted to HK$115,319,000 and HK$13,907,000 respectively (31 December 2021: Stage 1: HK$141,026,000 and Stage 2: HK$1,434,000).

(26) CAPITAL AND RESERVES

(a) Share capital

(i) Ordinary shares, issued and fully paid:

	At 30 June 2022		At 31 December 2021	
	No. of shares	***HK$'000***	*No. of shares*	*HK$'000*
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.

(26) CAPITAL AND RESERVES (CONTINUED)

(b) Nature and purpose of components of reserves

(i) Capital reserve

The capital reserve was created upon acquisition and 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

The regulatory general reserve comprises the regulatory general reserves of CBI (China) and the Macau branch of the Group. Pursuant to the banking regulations of Mainland China, CBI (China) is required to set up a regulatory general reserve through a direct appropriation from the current year profit, as determined based on the 1.5% of the total risk assets at the end of the reporting period to cover its unidentified potential loss exposures. Pursuant to the banking regulations of Macau, Macau branch is required to set up a regulatory general reserve in case accounting provision calculated from Macau Financial Reporting Standards is less than the regulatory provision as determined based on 1% of total credit exposure at the end of reporting period through a direct appropriation from the retained earnings 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 2022, HK$1,816,415,000 (31 December 2021: HK$2,061,314,000) was included in retained profits in this respect, which is distributable to equity holders of the Bank subject to consultation with the HKMA.

(27) OTHER EQUITY INSTRUMENTS

	At 30 June 2022 HK$'000	At 31 December 2021 HK$'000
Undated non-cumulative subordinated capital securities with US$500 million*	**3,907,328**	3,907,328
Undated non-cumulative subordinated capital securities with US$600 million**	**4,647,489**	4,647,489
Undated non-cumulative subordinated capital securities with US$600 million***	**4,687,907**	–
	13,242,724	8,554,817

* 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. The Bank may also at its sole discretion, elect to 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$139,266,000) was paid during six months ended 30 June 2022. (for the year ended 31 December 2021: US$35,500,000, equivalent to HK$276,005,000).

** Under the Programme and the original and supplemental offering circulars released in June and July 2021, the Bank issued the 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 (equivalent to HK$4,663.24 million) are perpetual and listed on the Stock Exchange of Hong Kong Limited, and bear a coupon of 3.25% per annum distribution rate until the first call date on 29 July 2026. 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 2.53% 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 29 January and 29 July in each year. The Bank may at its sole discretion, elect to cancel the distribution payment. The Bank may also at its sole discretion, elect to 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$9,750,000 (equivalent to HK$75,909,000) was paid during six months ended 30 June 2022.

*** Under the Programme and the original and supplemental offering circulars released in June 2021 and April 2022, the Bank issued the US$600 million Basel III compliant Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities on 22 April 2022. The AT1 Capital Securities with a face value and principal amount of US$600 million (equivalent to HK$4,703.34 million) are perpetual and listed on the Stock Exchange of Hong Kong Limited, and bear a coupon of 4.80% per annum distribution rate until the first call date on 22 April 2027. 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 2.104% 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 22 April and 22 October in each year. The Bank may at its sole discretion, elect to cancel the distribution payment. The Bank may also at its sole discretion, elect to 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).

(28) NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

	At 30 June 2022 *HK$'000*	At 30 June 2021 *HK$'000*
Operating activities		
Profit before taxation	**1,480,707**	1,677,137
Adjustments for non-cash items:		
Expected credit losses charged on financial assets	**696,884**	763,624
Impairment losses reversed on other assets	**(39,822)**	(13,731)
Net loss/(gain) on disposal of financial assets at fair value through other comprehensive income	**5,054**	(31,013)
Net (gain)/loss on disposal of property and equipment and intangible assets	**(121)**	4
Revaluation loss/(gain) on investment properties	**5,840**	(6,212)
Amortisation of deferred expenses	**124,615**	52,806
Amortisation of intangible assets	**118,331**	121,856
Depreciation on property and equipment	**73,641**	55,598
Depreciation on right-of-use assets	**145,494**	150,077
Dividend income from equity securities	**(2,290)**	(2,490)
Interest expense on loan capital	**92,955**	92,142
Foreign exchange differences	**522,152**	(2,974)
Operating profit before changes in working capital	**3,223,440**	2,856,824
Net (increase)/decrease in operating assets		
Placements with and advances to banks with original maturity beyond 3 months	**(677,878)**	(1,415,825)
Treasury bills with original maturity beyond 3 months	**8,296,633**	(4,425,529)
Certificates of deposit held with original maturity beyond 3 months	**(2,221,664)**	(235,928)
Financial assets at fair value through profit or loss	**1,699,481**	(1,198,804)
Derivative financial instruments	**(8,831,497)**	5,665,711
Loans and advances to customers and other accounts	**(18,808,863)**	(20,292,368)
Financial assets at fair value through other comprehensive income	**(2,654,583)**	(1,254,348)
	(23,198,371)	(23,157,091)
Net increase/(decrease) in operating liabilities		
Deposits and balances of banks and other financial institutions	**(3,277,544)**	8,499,663
Deposits from customers	**8,286,282**	6,606,678
Derivative financial instruments	**7,859,192**	(6,660,187)
Financial liabilities at fair value through profit or loss	**(215,592)**	–
Certificates of deposit issued	**5,623**	1,475,350
Other liabilities	**14,587,429**	2,846,789
	27,245,390	12,768,293
Cash generated from/(used in) operating activities	**7,270,459**	(7,531,974)
Income tax paid		
Hong Kong Profits Tax paid	**–**	(47,317)
Taxation outside Hong Kong paid	**(17,782)**	(31,166)
Net cash flows generated from/(used in) operating activities	**7,252,677**	(7,610,457)
Cash flows from operating activities include:		
Interest received	**4,210,894**	4,192,810
Interest paid	**(834,674)**	(1,228,933)

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

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

	At 30 June 2022 ***HK$'000***	At 30 June 2021 *HK$'000*
Cash and balances with banks and central banks	**27,401,374**	18,491,531
Placements with and advances to banks with original maturity within 3 months	**32,827,031**	37,220,534
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	**18,378,984**	13,085,179
– Amortised cost investments	**58,053**	53,360
	78,665,442	70,139,923

(c) Changes in liabilities arising from financing activities

(i) Loan capital	**2022** ***HK$'000***	2021 *HK$'000*
At 1 January	**3,883,863**	3,855,374
Foreign exchange differences	**24,047**	6,317
Other non-cash adjustments	**2,468**	2,387
At 30 June	**3,910,378**	3,864,078

(ii) Lease Liabilities	**2022** ***HK$'000***	2021 *HK$'000*
At 1 January	**592,621**	722,894
Payment of lease liabilities	**(155,850)**	(158,581)
Other non-cash items:		
– Additions	**21,696**	101,410
– Adjustments	**–**	(12,605)
– Other changes	**6,807**	11,805
At 30 June	**465,274**	664,923

(29) 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 2022							
	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$'000*	Undated (note) *HK$'000*
Assets								
Cash and balances with banks and central banks	28,034,178	27,395,430	–	–	–	–	–	638,748
Placements with and advances to banks	33,513,297	–	23,437,785	10,075,512	–	–	–	–
Financial assets at fair value through profit or loss	1,841,340	–	31,093	18,001	798,298	290,258	703,690	–
Derivative financial instruments	17,720,339	–	2,186,128	1,927,642	4,031,924	7,543,747	2,030,898	–
Loans and advances to customers and other accounts	267,498,378	1,492,506	33,918,280	30,132,305	69,503,516	87,445,177	32,210,150	12,796,444
Financial assets at fair value through other comprehensive income	98,573,509	–	13,864,731	13,513,947	31,233,033	39,718,222	142,195	101,381
Amortised cost investments	58,049	–	9,702	48,347	–	–	–	–
Property and equipment	898,626	–	–	–	–	–	–	898,626
Right-of-use assets	433,118	–	–	–	–	–	–	433,118
Intangible assets	486,196	–	–	–	–	–	–	486,196
Deferred tax assets	439,978	–	–	–	–	–	–	439,978
Total assets	449,497,008	28,887,936	73,447,719	55,715,754	105,566,771	134,997,404	35,086,933	15,794,491
Liabilities								
Deposits and balances of banks and other financial institutions	10,306,883	2,069,324	8,132,090	105,469	–	–	–	–
Deposits from customers	336,054,315	117,358,312	55,807,041	74,622,189	85,309,257	2,957,516	–	–
Financial liabilities at fair value through profit or loss	552,414	–	–	30,647	104,029	417,738	–	–
Derivative financial instruments	16,625,527	–	1,501,053	1,780,532	3,954,353	7,333,284	2,056,305	–
Certificates of deposit issued	1,490,558	–	235,351	392,252	862,955	–	–	–
Current taxation	320,181	–	–	–	320,181	–	–	–
Deferred tax liabilities	1,691	–	–	–	–	–	–	1,691
Lease liabilities	465,274	–	24,770	47,957	174,283	206,242	12,022	–
Loan capital	3,910,378	–	–	–	–	3,910,378	–	–
Other liabilities	25,289,576	455,516	17,510,557	2,607,366	2,060,941	749,542	–	1,905,654
Total liabilities	395,016,797	119,883,152	83,210,862	79,586,412	92,785,999	15,574,700	2,068,327	1,907,345
Asset-liability gap		(90,995,216)	(9,763,143)	(23,870,658)	12,780,772	119,422,704	33,018,606	

(29) MATURITY PROFILE (CONTINUED)

	At 31 December 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$'000*	Undated (note) *HK$'000*
Assets								
Cash and balances with banks and central banks	28,828,450	28,230,917	–	–	–	–	–	597,533
Placements with and advances to banks	21,058,640	–	19,846,311	1,212,329	–	–	–	–
Financial assets at fair value through profit or loss	3,106,275	–	1,100,544	51,473	104,929	340,160	1,509,169	–
Derivative financial instruments	8,888,842	–	1,366,350	1,205,499	2,364,082	3,334,211	618,700	–
Loans and advances to customers and other accounts	249,416,421	1,447,871	22,476,793	18,772,956	77,665,066	91,467,331	30,523,052	7,063,352
Financial assets at fair value through other comprehensive income	103,926,448	–	17,797,235	18,734,389	30,742,205	36,346,316	227,434	78,869
Amortised cost investments	53,375	–	4,854	48,521	–	–	–	–
Property and equipment	925,816	–	–	–	–	–	–	925,816
Right-of-use assets	559,103	–	–	–	–	–	–	559,103
Intangible assets	539,779	–	–	–	–	–	–	539,779
Deferred tax assets	168,886	–	–	–	–	–	–	168,886
Total assets	417,472,035	29,678,788	62,592,087	40,025,167	110,876,282	131,488,018	32,878,355	9,933,338
Liabilities								
Deposits and balances of banks and other financial institutions	13,584,427	911,672	7,243,647	4,041,133	1,387,975	–	–	–
Deposits from customers	327,768,033	127,211,837	58,171,911	85,762,717	54,074,315	2,547,253	–	–
Financial liabilities at fair value through profit or loss	768,006	–	6,162	–	20,211	212,162	529,471	–
Derivative financial instruments	8,766,335	–	1,570,410	1,225,317	2,196,188	3,044,581	729,839	–
Certificates of deposit issued	1,481,389	–	389,839	–	1,091,550	–	–	–
Current taxation	120,708	–	–	–	120,708	–	–	–
Deferred tax liabilities	1,541	–	–	–	–	–	–	1,541
Lease liabilities	592,621	–	25,171	49,745	213,046	286,625	18,034	–
Loan capital	3,883,863	–	–	–	–	3,883,863	–	–
Other liabilities	10,718,536	402,965	3,627,835	2,533,088	994,564	801,218	–	2,358,866
Total liabilities	367,685,459	128,526,474	71,034,975	93,612,000	60,098,557	10,775,702	1,277,344	2,360,407
Asset-liability gap		(98,847,686)	(8,442,888)	(53,586,833)	50,777,725	120,712,316	31,601,011	

Note:

"Undated" assets included in "loans and advances to customers and other accounts" were overdue and credit-impaired loans.

(30) 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 & joint venture *(note (i))*		Related companies *(note (ii))*	
	Six months ended 30 June									
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest income	**958**	9,247	**–**	–	**70,783**	13,038	**14,346**	14,936	**–**	5
Interest expense	**(2,124)**	(13,093)	**(7,983)**	(4,487)	**(11,837)**	(9,637)	**(35,657)**	(25,774)	**–**	(1)
Fee and commission income	**–**	390	**–**	–	**3,971**	395	**467**	47	**–**	–
Net trading income/(losses)	**(202,508)**	38,605	**–**	–	**74,020**	(45,712)	**(171,134)**	(32,743)	**–**	115
Operating expenses	**(2,466)**	(2,063)	**–**	–	**(10,359)**	(16,046)	**(2,317)**	(465)	**–**	(1,908)
	At 30 June 2022/31 December 2021									
Assets										
Financial assets at fair value through other comprehensive income	**–**	–	**–**	–	**222,489**	231,110	**973,776**	764,290	**–**	–
Derivative financial instruments	**292,092**	611,179	**–**	–	**155,065**	–	**102,078**	5,813	**–**	–
Other receivables	**80,402**	168,759	**–**	–	**12,013**	7,964	**105,469**	106,288	**–**	–
Liabilities										
Derivative financial instruments	**504,408**	502,941	**–**	–	**4,755**	7,337	**152,153**	122,138	**–**	–
Other payables	**24,120**	36,920	**3,371**	1,344	**14,842**	16,287	**229,269**	133,823	**–**	–
Lease liabilities	**–**	–	**–**	–	**2,299**	3,258	**10,752**	11,957	**–**	–
Financial liabilities at fair value through profit or loss	**–**	–	**–**	–	**–**	–	**41,875**	57,504	**–**	–
Lending activities:										
At 30 June/31 December	**441,470**	124,452	**–**	–	**6,574,306**	7,356,989	**1,053,634**	211,245	**–**	–
Average for the period/year	**209,184**	1,034,553	**–**	–	**6,975,875**	2,999,024	**492,445**	421,366	**–**	1,428
Acceptance of deposits:										
At 30 June/31 December	**1,660,821**	3,356,762	**2,384,217**	2,318,575	**5,118,060**	5,599,954	**6,021,609**	7,815,690	**9,788**	43,711
Average for the period/year	**1,873,663**	3,244,602	**2,364,791**	2,293,844	**5,138,757**	6,001,734	**6,905,451**	7,217,905	**21,090**	94,346

(30) MATERIAL RELATED-PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with group companies (continued)

	Ultimate holding and intermediate parents		Immediate parent		Fellow subsidiaries		Associates & joint venture *(note (i))*		Related companies *(note (ii))*	
	At 30 June 2022/ 31 December 2021									
Off-statement of financial position items										
Acceptances, guarantees and letters of credit										
– contract amounts payable	**–**	–	**–**	**–**	**(3,000)**	(3,000)	**–**	–	**–**	–
Other commitments	**–**	–	**–**	**–**	**2,563,596**	393,103	**1,054,762**	1,839,923	**–**	–
Derivative financial instruments										
– notional amounts	**27,028,786**	26,449,376	**–**	**–**	**1,908,005**	812,661	**22,826,009**	14,455,435	**–**	–

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

Note:

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

(ii) Related companies refers to companies which are common shareholders with significant influence over the Group, and subsidiaries of shareholders with significant influence over the intermediate parent.

(b) Transactions with key management personnel

All transactions with key management personnel that took place in the first half of 2022 were similar in nature to those disclosed in the 2021 Annual Report. There were no changes in the relevant transactions described in the 2021 Annual Report that have had a material effect on the financial position or performance of the Group in the first half of 2022.

(31) 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 2022 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	787,412	787,412	–	–
– Debt securities	1,053,928	1,053,928	–	–
	1,841,340	1,841,340	–	–
Derivative financial instruments				
– Positive fair value of derivatives	17,720,339	1,151	17,719,188	–
Financial assets at fair value through other comprehensive income				
– Certificates of deposit held	6,932,039	277,050	6,654,989	–
– Treasury bills	30,040,484	30,040,484	–	–
– Other debt securities	61,511,569	55,028,879	6,466,726	15,964
– Equity securities	89,417	–	–	89,417
	98,573,509	85,346,413	13,121,715	105,381
	118,135,188	87,188,904	30,840,903	105,381
Liabilities				
Financial liabilities at fair value through profit or loss				
– Short sales of debt securities	552,414	528,899	23,515	–
Derivative financial instruments				
– Negative fair value of derivatives	16,625,527	–	16,625,527	–

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

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

(i) Fair value hierarchy (continued)

Recurring fair value measurements	Fair value measurements as at 31 December 2021 using			
	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	1,099,768	1,099,768	–	–
– Debt securities	2,006,507	1,988,338	18,169	–
	3,106,275	3,088,106	18,169	–
Derivative financial instruments				
– Positive fair value of derivatives	8,888,842	–	8,888,842	–
Financial assets at fair value through other comprehensive income				
– Certificates of deposit held	4,490,521	737,266	3,753,255	–
– Treasury bills	39,187,201	39,187,201	–	–
– Other debt securities	60,169,857	53,630,266	6,535,591	4,000
– Equity securities	78,869	–	–	78,869
	103,926,448	93,554,733	10,288,846	82,869
	115,921,565	96,642,839	19,195,857	82,869
Liabilities				
Financial liabilities at fair value through profit or loss				
– Short sales of debt securities	768,006	768,006	–	–
Derivative financial instruments				
– Negative fair value of derivatives	8,766,335	30	8,766,305	–

During six months ended 30 June 2022 and year ended 31 December 2021, 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 31(a) (iii) below.

(31) 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.

(31) 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
Other debt securities	Discounted cash flow model	Forecasted cash flows	Change in likelihood of occurrence on one or more events that have a detrimental impact on the estimated future cash
Equity securities	Dividend growth model	Forecasted dividend and estimated risk-free rate	Refer to sensitivity analysis in note 31(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 2022		
	Financial assets at fair value through other comprehensive income		Total
Assets	**Other debt securities** *HK$'000*	**Equity securities** *HK$'000*	*HK$'000*
At 1 January 2022	**4,000**	**78,869**	**82,869**
Transfer from level 1	**7,783**	**–**	**7,783**
Gains/(losses) recognised in consolidated income statement	**184**	**(30)**	**154**
Changes in fair value recognised in other comprehensive income	**3,997**	**10,578**	**14,575**
At 30 June 2022	**15,964**	**89,417**	**105,381**
Total gains/(losses) for the period included in the consolidated income statement for assets held at the end of the reporting period recorded in:			
– Gains/(losses) from dealing in foreign currencies	**184**	**(30)**	**154**
Total gains recognised in other comprehensive income	**3,997**	**10,578**	**14,575**

(31) 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 2021		
	Financial assets at fair value through other comprehensive income		Total
	Other debt securities	Equity securities	
Assets	*HK$'000*	*HK$'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/(losses) recognised in consolidated income statement	121	(36)	85
Changes in fair value recognised in other comprehensive income	(23,504)	(31,836)	(55,340)
At 31 December 2021	4,000	78,869	82,869
Total gains/(losses) for the year included in the consolidated income statement for assets held at the end of the reporting period recorded in:			
– Gains/(losses) from dealing in foreign currencies	121	(36)	85
Total losses recognised in other comprehensive income	(23,504)	(31,836)	(55,340)

(31) 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 other debt securities, no sensitivity analysis is provided as the fair value is considered immaterial.

	At 30 June 2022			
	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	**–**	**–**	**3,318**	**(2,307)**

	At 31 December 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	–	–	5,745	(4,696)

(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 2022 and 31 December 2021 unless otherwise stated.

(i) Financial assets

The Group's financial assets mainly include cash and balances with banks and central bank; placements with and advances to banks; loans and advances to customers; financial assets at fair value through profit or loss; derivative financial instruments; financial assets at fair value through other comprehensive income and amortised cost investments.

The fair values of balances with banks and central bank and placements with and advances to banks 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.

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

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

(ii) Financial liabilities

All financial liabilities are stated at fair value or carried at amounts not materially different from their fair values at 30 June 2022 and 31 December 2021, except the following:

	At 30 June 2022				
	Carrying amount *HK$'000*	**Fair value** *HK$'000*	**Level 1** *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*
Financial liabilities					
Loan capital	**3,910,378**	**3,975,260**	**–**	**3,975,260**	**–**

	At 31 December 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	3,883,863	4,162,542	–	4,162,542	–

(32) ASSETS PLEDGED AS SECURITY

	At 30 June 2022 *HK$'000*	At 31 December 2021 *HK$'000*
Cash and balances with banks and central banks *(note)*	**6,276**	–
Financial assets at fair value through other comprehensive income pledged as:		
– Statutory deposits *(note)*	**203,750**	218,118
– Collateral under sale and repurchase transactions	**2,678,905**	–
	2,882,655	218,118
Other assets pledged as collateral under sale and repurchase transaction	**–**	75,867
	2,888,931	293,985

Note:

The assets were pledged by the overseas branches of the Bank to the Office of the Comptroller of the Currency in the United States.

(33) 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 2022 HK$'000	At 31 December 2021 HK$'000
Direct credit substitutes	**606,791**	391,928
Transaction-related contingencies	**970,392**	974,821
Trade-related contingencies	**7,213,872**	6,446,078
Forward forward deposits placed	**90,453**	14,424
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**101,036,050**	98,222,623
– with an original maturity of not more than 1 year	**2,290,858**	2,443,195
– with an original maturity of more than 1 year	**11,519,342**	13,632,064
	123,727,758	122,125,133
Credit risk-weighted amounts	**8,519,479**	9,172,993

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 2021: 0% to 150%).

(b) Capital commitments

Capital commitments mainly for projects and the purchase of equipment outstanding at 30 June 2022 not provided for in the financial statements are as follows:

	At 30 June 2022 HK$'000	At 31 December 2021 HK$'000
Authorised and contracted for	**204,514**	159,742

(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 2022 and 31 December 2021.

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 2022** *HK$'000*	31 December 2021 *HK$'000*
Loans and advances to customers	**247,637,426**	242,667,031
Expected credit losses on loans and advances to customers	**2,075,492**	1,871,846
Total assets	**449,497,008**	417,472,035
Total customers deposits (including certificates of deposit issued)	**337,544,873**	329,249,422
Total equity	**54,480,211**	49,786,576
Financial ratios		
Common Equity Tier 1 ("CET1") capital ratio	**11.9%**	12.2%
Tier 1 capital ratio	**16.1%**	14.9%
Total capital ratio	**18.5%**	17.4%
Loans to deposits	**73.4%**	73.7%
Loans to total assets	**55.1%**	58.1%
Average liquidity coverage ratio (for the half-year ended)	**227.1%**	236.9%
Cost to income (for the half-year ended)	**47.8%**	43.3%

(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.

(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 2022 *HK$'000*	At 31 December 2021 *HK$'000*
Common Equity Tier 1 ("CET1") capital instruments and reserves		
Directly issued qualifying CET1 capital instruments plus any related share premium	**18,059,741**	18,052,185
Retained earnings	**23,208,123**	22,119,639
Disclosed reserves	**(236,564)**	822,674
CET1 capital before regulatory deductions	**41,031,300**	40,994,498
CET1 capital: regulatory deductions		
Deferred tax assets net of deferred tax liabilities	**439,978**	168,886
Other intangible assets (net of related deferred tax liability)	**486,196**	539,779
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	**334,362**	340,202
Regulatory reserve for general banking risks	**1,816,415**	2,061,314
Valuation adjustments	**47,536**	22,638
Debit valuation adjustments in respect of derivative contracts	**4,588**	2,631
Total regulatory deductions to CET1 capital	**3,129,075**	3,135,450
CET1 capital	**37,902,225**	37,859,048
Additional Tier 1 ("AT1") capital		
Additional Tier 1 capital	**13,243,907**	8,556,000
Tier 1 capital	**51,146,132**	46,415,048
Tier 2 capital instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	**3,922,522**	3,898,392
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	**150,463**	153,091
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**3,555,072**	3,472,342
Tier 2 capital base before deductions	**7,628,057**	7,523,825
Tier 2 capital: regulatory deductions		
Regulatory deductions to Tier 2 capital	**–**	–
Tier 2 capital	**7,628,057**	7,523,825
Total capital	**58,774,189**	53,938,873

(ii) Risk-weighted amount

– Credit risk	**286,114,916**	279,510,475
– Market risk	**17,151,625**	16,346,413
– Operational risk	**14,839,563**	14,920,038
	318,106,104	310,776,926

(C) CAPITAL ADEQUACY (CONTINUED)

(iii) Capital adequacy ratios

	At 30 June 2022	At 31 December 2021
– CET1 capital ratio	**11.9%**	12.2%
– Tier 1 capital ratio	**16.1%**	14.9%
– Total capital ratio	**18.5%**	17.4%

(iv) Capital instruments

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

	At 30 June 2022 ***HK$'000***	At 31 December 2021 *HK$'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 2022 ***HK$'000***	At 31 December 2021 *HK$'000*
Additional Tier 1 Capital Securities		
Undated non-cumulative subordinated capital securities with US$500 million (issued in 2018)	**3,907,328**	3,907,328
Undated non-cumulative subordinated capital securities with US$600 million (issued in 2021)	**4,647,489**	4,647,489
Undated non-cumulative subordinated capital securities with US$600 million (issued in 2022)	**4,687,907**	–
	13,242,724	8,554,817

	At 30 June 2022 ***HK$'000***	At 31 December 2021 *HK$'000*
Tier 2 capital instruments		
Issued by the Bank		
– US$500 million Subordinated Fixed Rate Notes at 4.625% (due in 2029)	**3,910,378**	3,883,863

(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 2022	
Names of subsidiaries	**Principal activities**	**Total assets** ***HK$'000***	**Total equity** ***HK$'000***
Carford International Limited	Property holding	**38,370**	**16,132**
CITIC Bank International (China) Limited	Banking	**17,254,647**	**1,602,291**
CITIC Insurance Brokers Limited	Insurance broker	**771,897**	**729,268**
HKCB Finance Limited	Consumer financing	**6,310,214**	**748,107**
Ka Wah International Merchant Finance Limited	Inactive	**2,142**	**2,142**
The Ka Wah Bank (Trustee) Limited	Trustee services	**3,111**	**2,166**

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 2022	
Names of subsidiaries	**Principal activities**	**Total assets** ***HK$'000***	**Total equity** ***HK$'000***
The Hongkong Chinese Bank (Nominees) Limited	Nominee services	**3**	**3**
The Ka Wah Bank (Nominees) Limited	Nominee services	**3,905**	**54**
Security Nominees Limited	Nominee services	**–**	**–**
CNCBI Investment Holdings Limited	Investment holding	**435,984**	**426,546**
CNCBI Asset Management Limited	Asset management	**14,801**	**13,097**
CNCBI Financial Consultant Limited	Not yet commenced business	**567**	**(6,805)**
Prosperous Century Global Investment Fund SPC	Dormant	**–**	**–**

For all subsidiaries included in both the accounting and regulatory scope of consolidation, the same consolidation methodology is applied at 30 June 2022 and 31 December 2021.

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 2022

	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	**173,516,656**	**1,494,032**	**1,698,920**	**594,030**	**594,641**	**335,022**
Mainland China	**44,418,382**	**722,755**	**866,793**	**201,530**	**63,376**	**84,867**
United States	**10,720,499**	**–**	**–**	**31,517**	**13**	**–**
Singapore	**6,523,452**	**–**	**–**	**56,319**	**660**	**–**
Others	**12,458,437**	**5,886**	**5,886**	**62,066**	**51,451**	**–**
	247,637,426	**2,222,673**	**2,571,599**	**945,462**	**710,141**	**419,889**

At 31 December 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	164,317,771	1,408,801	1,954,280	653,299	77,670	554,531
Mainland China	51,062,202	287,812	294,102	331,139	88,604	–
United States	9,380,688	–	–	27,962	–	–
Singapore	5,425,256	–	–	50,734	–	–
Others	12,481,114	5,858	5,858	79,214	8,693	–
	242,667,031	1,702,471	2,254,240	1,142,348	174,967	554,531

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 ASSETS

	At 30 June 2022		At 31 December 2021	
	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	**451,509**	**0.18**	489,887	0.20
– 1 year or less but over 6 months	**790,225**	**0.32**	167,255	0.07
– over 1 year	**980,939**	**0.40**	1,045,329	0.43
	2,222,673	**0.90**	1,702,471	0.70
Secured overdue loans and advances	**1,543,657**		1,620,537	
Unsecured overdue loans and advances	**679,016**		81,934	
	2,222,673		1,702,471	
Market value of collateral held against the secured overdue loans and advances	**4,510,101**		3,765,237	
Expected credit losses allowances	**380,191**		383,981	

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 2022 and 31 December 2021 respectively.

There was financial asses at fair value through other comprehensive income amounted HK$11,964,000, which were overdue for over three months at 30 June 2022 (31 December 2021: Nil).

(F) RESCHEDULED LOANS

	At 30 June 2022		At 31 December 2021	
	HK$'000	**% of total loans and advances to customers**	*HK$'000*	% of total loans and advances to customers
Rescheduled loans	**6,271**	**0.003**	5,545	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 2022 and 31 December 2021 respectively.

(G) REPOSSESSED ASSETS

	At 30 June 2022 ***HK$'000***	At 31 December 2021 *HK$'000*
Included in loans and advances to customers and other accounts	**125,842**	259,517

The amount represented the estimated market value of the repossessed assets at 30 June 2022 and 31 December 2021 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 2022				
			Non-bank private sector		
	Banks *HK$'000*	**Official Sector** *HK$'000*	**Non-bank financial institutions** *HK$'000*	**Non-financial private sector** *HK$'000*	**Total** *HK$'000*
Developed countries	**30,559,652**	**7,026,464**	**2,571,541**	**5,018,841**	**45,176,498**
Offshore centres	**11,805,570**	**90,490**	**20,290,596**	**62,523,441**	**94,710,097**
of which Hong Kong	**7,071,453**	**90,081**	**17,349,524**	**52,818,825**	**77,329,883**
Developing Asia-Pacific	**32,449,243**	**7,157,938**	**6,657,149**	**44,322,524**	**90,586,854**
of which Mainland China	**28,237,191**	**7,157,532**	**6,657,149**	**39,897,944**	**81,949,816**

	At 31 December 2021				
			Non-bank private sector		
	Banks *HK$'000*	Official Sector *HK$'000*	Non-bank financial institutions *HK$'000*	Non-financial private sector *HK$'000*	Total *HK$'000*
Developed countries	21,186,925	7,849,066	1,622,973	4,787,610	35,446,574
Offshore centres	6,561,287	241,614	20,994,467	57,679,765	85,477,133
of which Hong Kong	5,140,660	241,196	17,747,075	48,919,329	72,048,260
Developing Asia-Pacific	32,156,750	7,602,966	8,363,208	52,596,772	100,719,696
of which Mainland China	27,717,481	7,590,329	8,363,208	49,390,308	93,061,326

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 2022		
		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)	**50,852,240**	**3,905,275**	**54,757,515**
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	**18,519,592**	**764,841**	**19,284,433**
(3)	PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**44,316,876**	**4,333,797**	**48,650,673**
(4)	Other entities of central government not reported in item 1 above	**4,436,259**	**49,541**	**4,485,800**
(5)	Other entities of local governments not reported in item 2 above	**1,984,689**	**–**	**1,984,689**
(6)	PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**33,450,891**	**1,722,359**	**35,173,250**
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**8,016,561**	**61,609**	**8,078,170**
Total		**161,577,108**	**10,837,422**	**172,414,530**
Total assets after provision		**425,148,503**		
On-balance sheet exposures as percentage of total assets		**38.0%**		

		At 31 December 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)	55,320,541	2,625,640	57,946,181
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	17,293,195	1,163,475	18,456,670
(3)	PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	45,781,229	4,303,479	50,084,708
(4)	Other entities of central government not reported in item 1 above	3,972,313	327,232	4,299,545
(5)	Other entities of local governments not reported in item 2 above	1,122,896	332,200	1,455,096
(6)	PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	30,613,592	1,427,781	32,041,373
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	11,144,223	252,301	11,396,524
Total		165,247,989	10,432,108	175,680,097
Total assets after provision		392,314,798		
On-balance sheet exposures as percentage of total assets		42.1%		

(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 2022, 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 including the implementation of Basel III Reform Package are underway to keep pace with the evolving regulatory landscape and increasingly stringent regulatory requirements. Furthermore, the Group has been actively fortifying the resilience against climate-related risks and promoting the risk culture of green and sustainable banking.

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.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

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.

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 asset in the consolidated statement of financial position after deducting any impairment allowances. A summary of the maximum exposure is as follows:

	At 30 June 2022 *HK$'000*	At 31 December 2021 *HK$'000*
Cash and balances with banks and central banks	**27,831,824**	28,592,214
Placements with and advances to banks	**33,513,297**	21,058,640
Financial assets at fair value through profit or loss	**1,841,340**	3,106,275
Derivative financial instruments	**17,720,339**	8,888,842
Loans and advances to customers and other accounts	**267,055,912**	248,878,247
Financial assets at fair value through other comprehensive income	**98,484,092**	103,847,579
Amortised cost investments	**58,049**	53,375
Financial guarantees and other credit-related contingent liabilities	**8,881,508**	7,827,251
Loan commitments and other credit-related commitments	**114,846,250**	114,297,882
	570,232,611	536,550,305

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 consolidated 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 2022			
	Derivative financial instruments presented in the consolidated statement of financial position	**Related amounts that are not offset in the consolidated statement of financial position**		
		Financial instruments	**Cash collateral received**	**Net amount**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Financial assets				
– Derivative financial instruments *(note 14(b))*	**17,720,339**	**(5,228,210)**	**(2,312,835)**	**10,179,294**
Financial liabilities				
– Derivative financial instruments *(note 14(b))*	**16,625,527**	**(5,228,210)**	**–**	**11,397,317**

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(iii) Master netting arrangement (continued)

	At 31 December 2021			
	Derivative financial instruments presented in the consolidated statement of financial position	Related amounts that are not offset in the consolidated statement of financial position		
		Financial instruments	Cash collateral received	Net amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
– Derivative financial instruments *(note 14(b))*	8,888,842	(3,987,107)	(990,197)	3,911,538
Financial liabilities				
– Derivative financial instruments *(note 14(b))*	8,766,335	(3,987,107)	–	4,779,228

(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 2022 and 31 December 2021, excluding impaired exposure, is broken down as follows:

	At 30 June 2022	At 31 December 2021
	HK$'000	*HK$'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	**107,161,659**	100,926,081
– past due but not impaired	**1,876,854**	1,659,866
	109,038,513	102,585,947

(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 gone down by 5 notches since initial recognition; or

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

Management overlay and judgements

The Group will consider the need to implement and apply management overlay over the ECL modelled outcome to cater for model constraints, data limitation and exceptional events. The management overlay methodologies involve management judgement and the amounts are subjected to regular robust review and governance processes to assess the adequacy and relevancy of such overlay.

As at 30 June 2022 and 31 December 2021, management overlay was applied on top of modelled ECL to cater for uncertainties arising from the government policy risk in PRC commercial real estate sector. In determining this overlay, the Group has identified the vulnerable sector exposures which are not backed by collateral. Additional ECL has been recognised to cater for the potential change in internal rating based on the likelihood of credit quality deterioration of the sector.

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%; the upside scenario, namely benign, represents likelihood of improvements to the current economic situation; carrying a weight of 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% 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 a moderate and gradual growth around the globe over the forecast period of 2022 – 2026. The global economy is expected to take a step back in recovery with a growth slowdown in the coming months, before regaining momentum and expanding at a faster pace in the longer run. The near-term setback in economic recovery is due to a combination of factors including the aggressive monetary tightening by global central banks in an effort to ease the surging inflation, as well as the outbreak of Russia-Ukraine military conflicts and the lingering COVID-19 pandemic.

Mainland China's economy is anticipated to continue with a moderate recovery over the forecast period. While GDP growth is set to drop and unlikely to hit the central government's GDP growth target in 2022, it is expected to gather pace in the subsequent years over the forecast period. Economic activities will remain largely resilient with strong fiscal and monetary policy support before picking up the slacks with further easing of pandemic related measures, while exports may outperform thanks to China's comprehensive supply chain and competitiveness. Meanwhile, Mainland China's unemployment rate should continue trending lower and return to the pre-pandemic level.

Hong Kong's economy is expected to suffer a setback in recovery but manage to maintain growth in 2022, as a result of the resurgence of the COVID-19 pandemic in the city in the first quarter. In the longer run, the economy is foreseen to regain momentum and grow at a faster pace as economic activities continue to normalize. The unemployment rate in Hong Kong will continue to fluctuate with pandemic developments. The labor market conditions could worsen when the pandemic situation deteriorates but should improve rapidly when COVID-19 is effectively dealt with.

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 suffers a significant hit in recovery and falls into a recession once again. The aggressive monetary tightening by global central banks severely hamper domestic economic activities and drag the respective economies into a recession. Besides, a sharp escalation of geopolitical tensions as a result of the worsening Russia-Ukraine military conflicts, together with the deteriorating COVID-19 pandemic with vaccines failing to contain new COVID variants, further weigh on the global economy. GDP growth drops considerably or turns negative for most advanced economies, while economic growth in Mainland China and Hong Kong experience a marked deceleration. Meanwhile, financial and commodity markets experience sharp corrections with heightened volatilities, and unemployment rates across countries increase sharply.

(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.

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 HK$2,445.4 million as of 31 December 2021 to HK$2,777.7 million as of 30 June 2022. 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 2022						
	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 and central banks at amortised cost	27,837,766	–	–	–	27,837,766	(5,942)	27,831,824
– Stage 1	27,837,766	–	–	–	27,837,766	(5,942)	27,831,824
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Placements with and advances to banks at amortised cost	33,333,870	203,893	–	–	33,537,763	(24,466)	33,513,297
– Stage 1	33,333,870	203,893	–	–	33,537,763	(24,466)	33,513,297
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loans and advances to customers and other accounts at amortised cost	174,643,794	78,248,864	13,667,677	2,985,930	269,546,265	(2,490,353)	267,055,912
– Stage 1	174,027,521	74,853,685	2,535,005	–	251,416,211	(945,992)	250,470,219
– Stage 2	616,273	3,395,179	11,132,672	–	15,144,124	(710,141)	14,433,983
– Stage 3	–	–	–	2,985,930	2,985,930	(834,220)	2,151,710
Amortised cost investments	58,053	–	–	–	58,053	(4)	58,049
– Stage 1	58,053	–	–	–	58,053	(4)	58,049
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loan commitments and financial guarantee contracts *(Note (i))*	122,431,427	127,785	–	–	122,559,212	(129,226)	122,429,986
– Stage 1	122,116,562	127,785	–	–	122,244,347	(115,319)	122,129,028
– Stage 2	314,865	–	–	–	314,865	(13,907)	300,958
– Stage 3	–	–	–	–	–	–	–
Total	358,304,910	78,580,542	13,667,677	2,985,930	453,539,059	(2,649,991)	450,889,068
Financial assets at fair value through other comprehensive income – Debt securities *(Note (ii))*	97,883,772	570,882	16,762	12,676	98,484,092	(257,422)	
– Stage 1	97,883,772	570,882	–	–	98,454,654	(27,271)	
– Stage 2	–	–	16,762	–	16,762	(31,995)	
– Stage 3	–	–	–	12,676	12,676	(198,156)	
Total	97,883,772	570,882	16,762	12,676	98,484,092	(257,422)	

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vii) Credit quality of financial assets (continued)

	At 31 December 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 and central banks at amortised cost	28,596,881	–	–	–	28,596,881	(4,667)	28,592,214
– Stage 1	28,596,881	–	–	–	28,596,881	(4,667)	28,592,214
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Placements with and advances to banks at amortised cost	20,133,368	931,158	–	–	21,064,526	(5,886)	21,058,640
– Stage 1	20,133,368	931,158	–	–	21,064,526	(5,886)	21,058,640
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loans and advances to customers and other accounts at amortised cost	158,939,851	78,986,110	10,742,987	2,599,090	251,268,038	(2,218,167)	249,049,871
– Stage 1	158,361,710	76,446,654	3,983,224	–	238,791,588	(1,143,819)	237,647,769
– Stage 2	578,141	2,539,456	6,759,763	–	9,877,360	(174,967)	9,702,393
– Stage 3	–	–	–	2,599,090	2,599,090	(899,381)	1,699,709
Amortised cost investments	53,378	–	–	–	53,378	(3)	53,375
– Stage 1	53,378	–	–	–	53,378	(3)	53,375
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loan commitments and financial guarantee contracts *(Note (i))*	76,460,490	40,324,381	438,805	–	117,223,676	(142,460)	117,081,216
– Stage 1	76,460,490	40,324,381	414,372	–	117,199,243	(141,026)	117,058,217
– Stage 2	–	–	24,433	–	24,433	(1,434)	22,999
– Stage 3	–	–	–	–	–	–	–
Total	284,183,968	120,241,649	11,181,792	2,599,090	418,206,499	(2,371,183)	415,835,316
Financial assets at fair value through other comprehensive income – Debt securities *(Note (ii))*	101,789,179	2,045,153	–	13,247	103,847,579	(218,106)	
– Stage 1	101,789,179	2,045,153	–	–	103,834,332	(26,155)	
– Stage 2	–	–	–	–	–	–	
– Stage 3	–	–	–	13,247	13,247	(191,951)	
Total	101,789,179	2,045,153	–	13,247	103,847,579	(218,106)	

(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 33.

(ii) Debt securities measured at FVOCI are held at fair value. 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 2022			
	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	**–**	**16,331,890**	**–**	**16,331,890**
Aa3 to Aa1	**865,770**	**29,722,948**	**58,049**	**30,646,767**
A3 to A1	**889,974**	**45,717,313**	**–**	**46,607,287**
Lower than A3	**69,194**	**6,345,052**	**–**	**6,414,246**
	1,824,938	**98,117,203**	**58,049**	**100,000,190**
Unrated	**16,402**	**366,889**	**–**	**383,291**
Total	**1,841,340**	**98,484,092**	**58,049**	**100,383,481**

(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 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	352,867	10,054,893	–	10,407,760
Aa3 to Aa1	1,741,481	33,675,076	53,375	35,469,932
A3 to A1	630,214	52,966,046	–	53,596,260
Lower than A3	314,545	6,989,889	–	7,304,434
	3,039,107	103,685,904	53,375	106,778,386
Unrated	67,168	161,675	–	228,843
Total	3,106,275	103,847,579	53,375	107,007,229

(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

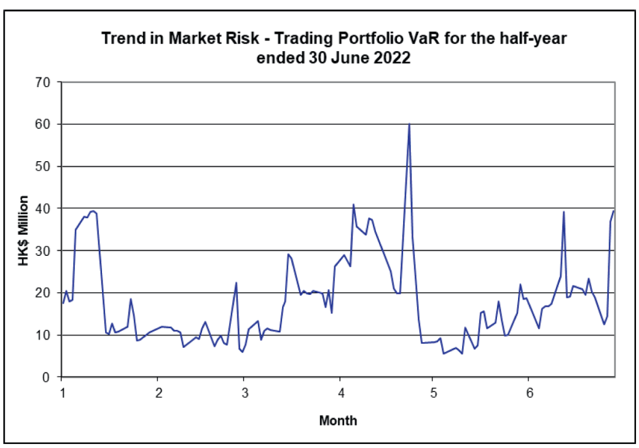
Value-at-risk ("VaR")

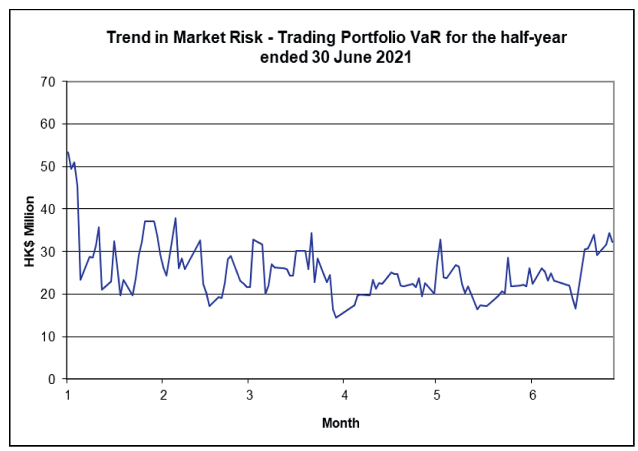
VaR is a technique in estimating the potential losses that could occur on market risk-taking positions due to market rates and prices movement under normal market conditions over a specified time horizon. The model is designed to capture different types of risk including interest rate risk, foreign exchange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

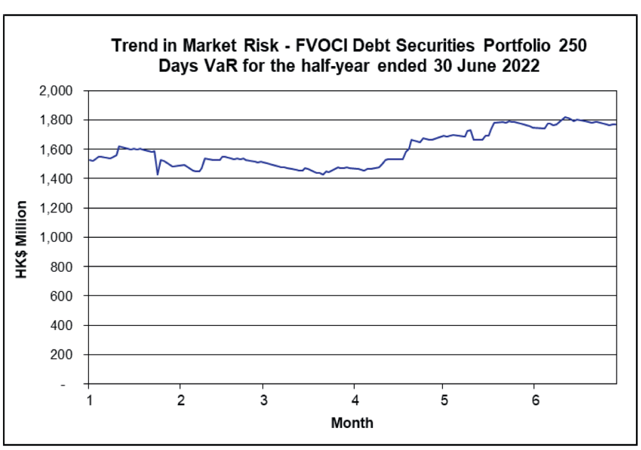
For the calculation of VaR, the Group uses the most recent two years of historical market rates, prices and volatilities.

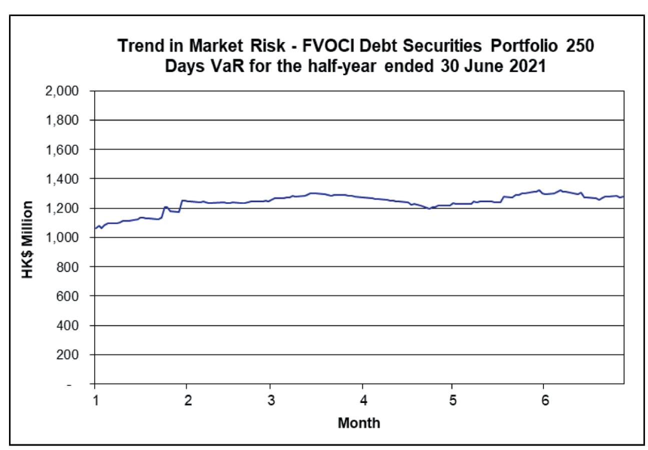
– For the trading positions, the VaR is calculated for one-day holding period.





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





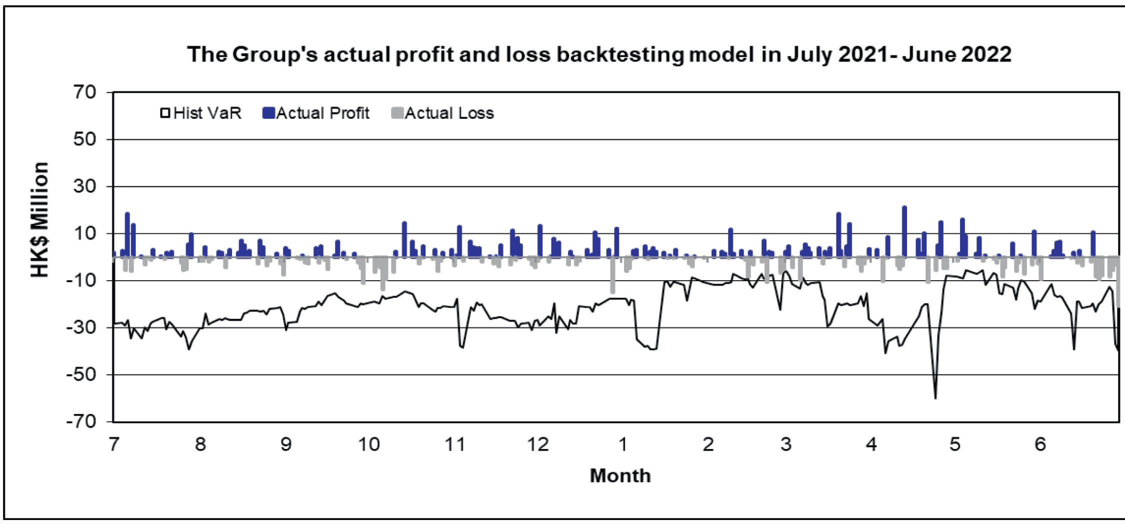
(J) RISK MANAGEMENT (CONTINUED)

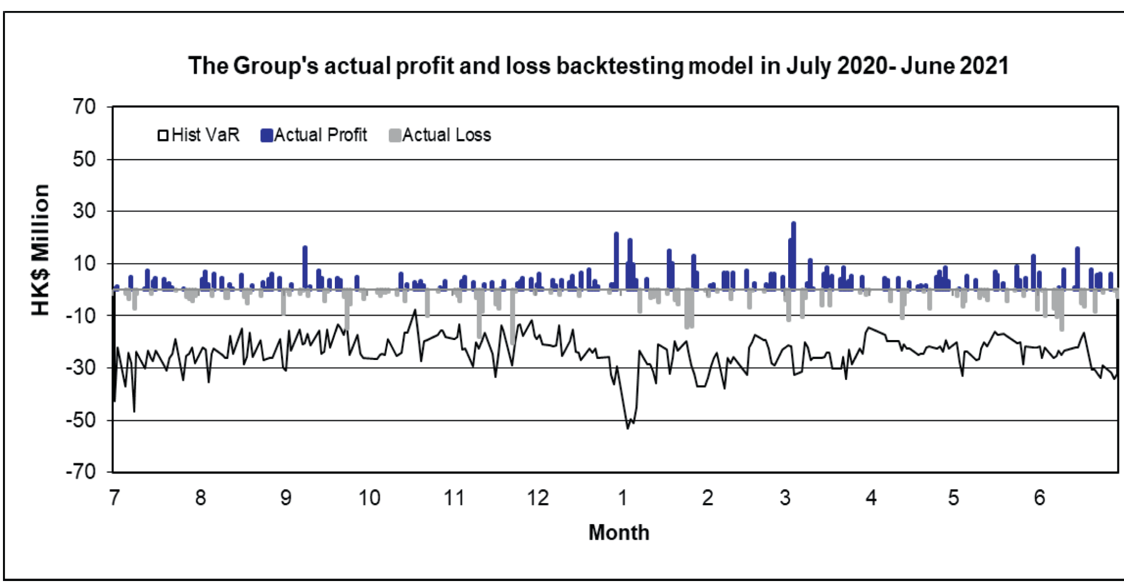
(b) Market risk management (continued)

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 2021 to 30 June 2022, there was 1 exception in the back-testing results (for the period of 1 July 2020 to 30 June 2021, there was 1 exception), which corresponds to the green zone specified by the HKMA and the international Basel principles.





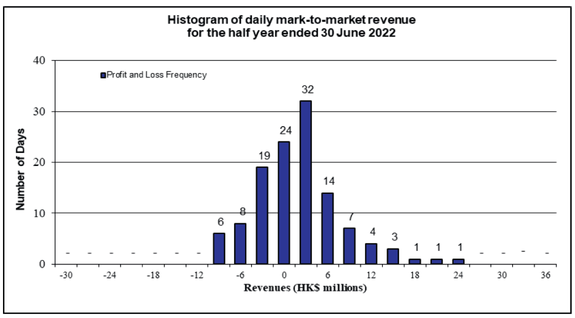
(J) RISK MANAGEMENT (CONTINUED)

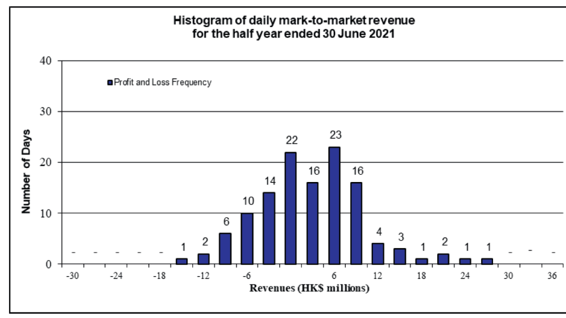
(b) Market risk management (continued)

Methodology and characteristics of market risk model (continued)

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

For the six months ended 30 June 2022, the average daily mark-to-market revenue from the Group's trading portfolio was a gain of HK$526,000 (30 June 2021: gain of HK$1,331,000). The standard deviation of the daily revenue was HK$6,034,000 (30 June 2021: HK$7,266,000). The graphs below show the histograms of the Group's daily mark-to-market revenue for the period ended 30 June 2022 and 2021, 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 2022				Six months ended 30 June 2021			
	Approximate			At 30	Approximate			At 30
	maximum	minimum	mean	June 2022	maximum	minimum	mean	June 2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Foreign exchange risk	**17,155**	**362**	**4,639**	**2,188**	24,259	2,710	10,784	7,831
Interest rate risk and credit spread risk	**60,303**	**4,980**	**17,580**	**38,396**	42,114	13,790	22,465	29,919
Total VaR	**60,071**	**5,577**	**18,023**	**39,488**	53,296	14,476	25,658	32,332

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

	Six months ended 30 June 2022				Six months ended 30 June 2021			
	Approximate			At 30	Approximate			At 30
	maximum	minimum	mean	June 2022	maximum	minimum	mean	June 2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest rate risk	**1,665,212**	**618,268**	**1,160,427**	**1,605,323**	849,229	778,632	810,335	816,617
Credit spread risk	**1,605,241**	**750,425**	**1,280,731**	**754,927**	1,478,964	1,247,136	1,335,457	1,417,752
Total 250-day VaR	**1,820,163**	**1,424,703**	**1,602,190**	**1,767,728**	1,324,072	1,063,496	1,238,178	1,276,229

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 Mainland 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 2022, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK$265,000 (six months ended 30 June 2021: a profit of HK$453,000) with a standard deviation of HK$12,131,000 (six months ended 30 June 2021: HK$9,520,000).

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

	At 30 June 2022				At 31 December 2021			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**	USD	RMB	Others	Total
Spot assets	**198,080,192**	**41,399,783**	**29,079,899**	**268,559,874**	176,637,317	20,952,451	24,632,189	222,221,957
Spot liabilities	**(149,753,630)**	**(47,526,372)**	**(12,733,573)**	**(210,013,575)**	(130,209,088)	(29,602,304)	(13,310,556)	(173,121,948)
Forward purchases	**525,636,129**	**333,699,709**	**67,807,871**	**927,143,709**	483,048,048	321,823,265	87,983,255	892,854,568
Forward sales	**(571,492,502)**	**(326,263,145)**	**(84,661,804)**	**(982,417,451)**	(529,582,904)	(310,297,654)	(99,330,676)	(939,211,234)
Net options position	**95,653**	**(742,672)**	**538,878**	**(108,141)**	699,927	(706,129)	56,740	50,538
Net long position	**2,565,842**	**567,303**	**31,271**	**3,164,416**	593,300	2,169,629	30,952	2,793,881
Net structural position	**–**	**702,737**	**48,514**	**751,251**	–	734,574	48,541	783,115

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 2022, the Group's average daily trading profit and loss related to interest rate and fixed income trading strategy was a profit of HK$260,000 (30 June 2021: a profit of HK$878,000), with a standard deviation of HK$13,397,000 (30 June 2021: HK$8,841,000).

(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 2022, 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 decrease in average LCR in the first half of 2022 was mainly driven by the increase in the cash outflow pressures from debt securities settlement.

(J) RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk management (continued)

	Weighted amount (average value)				
	For quarter ended 30 June 2022	**For quarter ended 31 March 2022**	For quarter ended 31 December 2021	For quarter ended 30 September 2021	For quarter ended 30 June 2021
Average LCR	**224%**	**230%**	239%	280%	249%

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 2022	**For quarter ended 31 March 2022**	For quarter ended 31 December 2021	For quarter ended 30 September 2021	For quarter ended 30 June 2021
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Level 1 assets	**55,032,966**	**53,617,053**	53,501,344	54,017,812	51,238,524
Level 2 assets	**14,248,638**	**14,024,408**	13,977,535	12,626,988	13,300,794
Total	**69,281,604**	**67,641,461**	67,478,879	66,644,800	64,539,318

The Group also maintains sufficient available stable funding in support of its longer-term assets to meet the statutory NSFR requirements. The increase in the NSFR in the first half of 2022 was mainly driven by the increases in deposits from retail customers, partly offset by the increases in the customer loans. There is no interdependent asset and liability as defined in the Banking (Liquidity) Rules in the Group.

	Quarter ended 30 June 2022	**Quarter ended 31 March 2022**	Quarter ended 31 December 2021	Quarter ended 30 September 2021	Quarter ended 30 June 2 021
NSFR	**127%**	**127%**	125%	125%	122%

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. At 30 June 2022, the capital buffers applicable to the Group include the 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. On 5 May 2022, the HKMA maintained the CCyB ratio for Hong Kong at 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. The statutory minimum leverage ratio is 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 2022 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 2022 and year ended 31 December 2021, 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 properly 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 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 support 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 all 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 2021, the Group has successfully completed the transition of a significant portion of its IBOR exposure to RFRs and has in place detailed plans, processes and procedures to support the transition of the remainder. Following the progress made during 2021, the Group is confident that it has the operational capability to process the remaining transitions to the RFRs for those interest rate benchmarks such as USD LIBOR that will cease to be available after 30 June 2023. 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 and will implement specific mitigating controls when required. 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 arising from the unexpected volatility in income statement due to the failure of the Group's hedging relationships when the financial instruments transition from IBORs to RFRs.

Interest Rate Benchmark Reform Phase 2, the amendments, address issues affecting financial statements when changes are made to contractual cash flows. Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by interest rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument. Instead they require the effective interest rate to be updated to reflect the change in the interest rate benchmark.

(J) RISK MANAGEMENT (CONTINUED)

(i) IBOR reform (continued)

The table below shows the Group's exposures at six months ended 30 June 2022 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 2022			
	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]	**43,174,503**	**–**	**129,456,287**	**4,576,045**
SGD SOR[b] or Sibor[c]	**757,234**	**–**	**–**	**212,323**
Total	**43,931,737**	**–**	**129,456,287**	**4,788,368**

	At 31 December 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]	41,188,022	–	117,666,150	4,227,715
GBP Libor	116,369	–	–	304,533
EUR Libor	689	–	–	–
SGD SOR[b] or Sibor[c]	1,778,473	–	–	206,371
Total	43,083,553	–	117,666,150	4,738,619

(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 2022, the Group did not enter into any accounting hedge transaction.

REPORT OF THE CHIEF EXECUTIVE OFFICER

In the first half of 2022, overall operating environment of banking industry was severely challenged by impact from Hong Kong's fifth wave of pandemic and turmoil of global economy and financial markets. China CITIC Bank (International) Limited ("CNCBI" or "the Bank") and its subsidiaries (together "the Group") proactively implemented business continuity plans as well as pandemic prevention and control measures to effectively ensure its normal operation of business activities and safety of its customers and staff. Meanwhile, prudent business strategy was adopted by the Group to strengthen risk compliance and cost management, optimize asset and liability structure, strive to press forward with implementation of 4C strategies (culture, customers, collaboration, cyberspace), continue to promote Fintech transformation, keep intensifying business collaboration with CITIC Group and parent bank China CITIC Bank Corporation Limited ("CNCB"), and immerse fully into CITIC Group ecosystem. Thus, overall business was stable and improving, laying a solid foundation for long-term sustainable development.

OPERATING ENVIRONMENT

In the first half of 2022, inflation surged in many parts of the world, and economic performance weakened, raising the odds of stagflation. As soaring prices forced major central banks to actively tighten monetary policy while recession risks increased, the volatility of asset prices soared. The overall macro environment was complex and rather challenging.

Mainland China's economy was under pressure in the first half of the year, and the labor market weakened. The pandemic prevention and control measures restricted consumption, and retail sales underperformed. The economic activities are expected to be gradually normalized and recovered in the second half of the year.

Hong Kong's economy contracted considerably in the first quarter due to the pandemic. Thanks to the gradual normalization of local economic activities in the second quarter, private consumption and economic growth momentum improved, while the unemployment rate declined. GDP could eke out low single-digit growth for the whole year. As for the interest rate environment, the Fed actively hiked rates, but interest rate adjustments in Hong Kong lagged.

FINANCIAL REVIEW

The Group posted profit attributable to shareholders of HK$1.32 billion for the first half of 2022, representing a 6.3% year-on-year drop. Operating income was HK$4.11 billion, down 3.7% from same period of last year. Net interest income rose 4.5% year on year to HK$2.98 billion, and net interest margin widened by 3 basis points versus the same period of last year to reach 1.46%. Non-interest income fell by 20.3% year on year to HK$1.13 billion mainly caused by decreases in net trading income, income from debt capital markets, and net fee and commission income from investment & structured investment products.

Operating expenses increased by 6.4% year on year to HK$1.96 billion. Cost-to-income ratio was 47.8%. While strengthening cost control, the Group continued to focus resources on strategic priorities, consolidate FinTech development, and increase investment in technology and human resources.

Impairment losses for the first half of 2022 decreased by 12.4% to HK$0.66 billion. Impaired loan ratio as of June 2022 was 1.04%. Overall quality of loan portfolio was controllable. In the second half of the year, the Group will set up its effort for impaired loan handling and further improve the quality of its loan portfolio.

In response to complicated and challenging operating environment, the Group continued to issue new loans prudently and modify composition of its asset portfolio pro-actively in order to enhance capital efficiency. At the end of June 2022, the Group's total assets at HK$449.50 billion was 7.7% higher than the end of last year. The Group balanced growth of loans and deposits. Customer loans (including trade bills) increased by 2.0% from the end of last year to HK$247.64 billion. Customer deposits (including certificates of deposit issued) amounted to HK$337.54 billion, up 2.5% from the end of last year. The loan-to-deposit ratio at 73.4%, remained healthy.

BUSINESS REVIEW

Wholesale Banking Business

In spite of repeated pandemic, Wholesales Bank Group ("WBG") still achieved decent business performance as well as steady asset quality. During the reporting period, total income and profit after provision increased by 7.8% and 29.4% respectively compared to the same period last year. Non-performing loan ratio continued to stay at a low level.

Structured finance continued to play an actively role. The Group ranked top three at the end of first half of 2022 in Mandated Lead Arranger and Bookrunners in Hong Kong and Macau Syndicated Loan Market according to Refinitiv while the market share accounted for 8.05%. Meanwhile, the Group set up a structured finance team in Singapore branch so as to further enhance market position by leveraging the core competencies of Hong Kong Head Office. Furthermore, ESG-related syndicated loan grew strongly reaching HK$4.3 billion by the end of Jun 2022 representing a more than doubled increase compared to end of 2021.

During the period under review, trade turnover in Hong Kong achieved HK$24.9 billion, representing an increase of 16.3% compared to the same period last year. In addition, launch of IPO Receiving Bank provided more integrated transaction banking service to its customers, which improved service quality.

The Group's collaboration business was fruitful. WBG proactively leveraged on the platform of CITIC to cooperate with CITIC Group and CNCB aiming to provide one-stop and customized service to our customers.

Treasury and Markets Business

During the first half of 2022, various teams within Treasury and Markets Group ("TMG") collaborated actively in light of highly volatile market environment and achieved steady growth in both scale and efficiency.

Trading team continued to focus on building out its market-making business and managed to maintain a relatively stable competitive position in the market. According to Refinitiv, CNCBI ranked top three amongst all Chinese banks in Asia for RMB FX spot trading volume in the first six months of 2022. The Group was, highly recognized in the market, named "Northbound Outstanding Commercial Bank" for the third consecutive year in "Bond Connect Awards" and also received a "Primary Market Pioneer Award" in this year.

Southbound bond business achieved a breakthrough this year. In the first half of the year, sales and trading teams achieved significant Southbound transaction volume. For Securities Services team, with successful implementation of custodian model, CNCB acting as onshore primary custodian bank while CNCBI acts as offshore secondary custodian bank, assets under custody size of Southbound bonds reached US$3.5 billion as of the end of June. With the support of CNCB and the contribution from the Southbound business, total asset size under custody achieved a huge breakthrough this year, and more than doubled in the second quarter. By the end of June, the total assets under custody reached nearly US$7 billion, registering more than four-fold increase year-on-year.

Debt Capital Markets ("the DCM") team was actively exploring new products and new customers, while gradually reducing exposure to real estate high yield customers in order to enhance risk profile in the current market environment. The DCM team started Certificates of Deposit and Medium Term Notes business and achieved encouraging results in the first six months of 2022, with 243 issuances completed and volume reaching US$14.1 billion.

Personal and Business Banking Business

Despite an unprecedented challenging operating condition caused by the Hong Kong's fifth wave of the pandemic and the volatile global investment markets in the first half of the year, Personal and Business Banking Business Group ("PBG") achieved operating income of HK$1.39 billion, slightly dropped by 2.2% year-on-year. Business foundation remained solid. Revenue from Private Banking and Business Banking recorded 8.0% and 6.8% year-on-year growth respectively. Customer deposits grew by 10.3% and customer loans increased by 3.1% compared with 2021 year-end. These achievements enable us to solidify our business foundation for future growth.

Growing high-net-worth segment was key focus of "New Retail" business strategy. In the first half of the year, a large scale customer acquisition promotion program was launched for CITIC*diamond* segment and result was encouraging. Number of CITIC*diamond* customers grew by 19.2% compared with 2021 year-end, resulting in the increase of high-net-worth customer base by 11.3%.

PBG continued to promote digital transformation and customer-oriented innovative spirit enhancing user experience by providing value-added products and services to enrich total customer-centric solution and suit customer needs for online banking services. As of the end of June, number of digital users grew by 19.8% year-on-year, of which number of mobile banking flagship platform inMotion customers increased by 32.2%.

New enhanced and innovative products and services were launched in the first half of 2022, including simplification of digital account opening process, remote RM services, optimizing customer journey of personal loan application and approval, enhancement of merchant payment services and launching a series of new missions in "Reward Go" program in inMotion to enhance customer engagement. In addition, the Group was the 1st Chinese Bank in Hong Kong to launch US Stock ELI in order to provide a more comprehensive investment choice for customers to fulfil their wealth management needs.

The Group was awarded "The 22nd Capital Outstanding Enterprise Awards – Outstanding Private Banking Service" and received 9 accolades from Hong Kong Institute of Banker on "The 14th Outstanding Financial Management Planners Awards“, including "Best Financial Planning Proposal Award" and "Top Nomination Award", demonstrating professionalism in financial planning and wealth management services.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Group continues to emphasize importance of sound risk governance and strives to maintain robust risk management and internal control practices. In view of the HKMA's promotion of comprehensive development of Fintech and 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 also performed stress tests and portfolio reviews on key risk areas to assess potential impact under stressed environment (such as the on-going COVID-19 pandemic, global economic recession and continuous 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 including implementation of Basel III Reform Package are underway to keep pace with the evolving regulatory landscape and increasingly stringent regulatory requirements, Furthermore, the Group has been actively fortifying the resilience against climate-related risks and promoting risk culture of green and sustainable banking. On 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 Group closely monitored the development of the pandemic and made necessary changes to work arrangements according to the pandemic prevention and control measures of the HKSAR Government and CNCB. At the peak of the situation, high offsite rate was maintained to meet HKSAR Government's tightening of social distancing requirements and ensure the safety of customers and staff. To support the remote working, the Group kept improving work-from-home capabilities. In order to fight against the pandemic, the Group continued to implement business continuity plans to ensure stable operations and keep daily business activities on track with no occurrence of major risk incident. The Group also actively responded to various prevention measures of the HKSAR Government and encouraged 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. Through online and offline banking services, and agile culture of working methods to maintain normal operations and improve overall operational efficiency.

HUMAN RESOURCES DEVELOPMENT

The Group keeps prioritizing health and safety of staff members. With the supports from CITIC Group and CNCB, the Group timely launched a number of staff caring measures during the fifth wave of the pandemic, including the CNCBI Anti-pandemic Staff Caring Fund, distribution of anti-pandemic supplies and health supplements, enhanced Employee Wellness Program, and implementation of flexible work arrangement. Meanwhile, the Group encouraged all staff to get the COVID-19 vaccine, and continued to organize a mix variety of online health talks and workshops, distributed healthy food and provided virtual consultation and medication delivery services. Comprehensive support was provided to staff during the pandemic to take care of their physical and mental health.

The Group adheres to the core values of culture-oriented, customer-focused, multiparty collaboration and technology-led to press ahead Agile Culture Transformation (ACT) program and cultivate a sound Bank culture. The Bank has launched a new staff recognition program "The Best of CNCBI", to recognize outstanding colleagues for their efforts in achieving excellence in the implementation of the Bank's 4C strategic framework (Culture, Customer, Collaboration and Cyberspace).

The Group endeavors to support the personal and professional development of our staff. CNCBI Academy mobile application was launched along with the various online courses for staff having online learning and enhancing their professional skills with ease. In the first "JobsDB – The Hong Kong HR Awards 2021/22", the Group received two awards, namely, "Grand Award of People" and "Employer of the Year", underscoring industry and general public's recognition for the Bank's human resources management.

ESG SUSTAINABLE GROWTH

The Group attaches great importance to ESG and sustainable growth strategies, and commits to fully integrating environmental, social and governance elements into its operations. In the first half of 2022, the Group established ESG Steering Committee and ESG Working Group to better promote relevant work. The Group will continue to improve ESG governance through complying regulatory requirements, encouraging the development of green financial business, strengthening its own environmental protection and energy conservation, implementing efficient and transparent management practices, and actively fulfilling corporate social responsibilities.

CNCBI and all of its staff make every effort to give back to society in order to uphold their commitment to corporate social responsibility. During the Hong Kong's fifth wave of the pandemic, the Group together with CNCB and CITIC Staff Association (Hong Kong and Macao) donated over 15,000 anti-pandemic prevention supplies. In the meantime, the Group donated around 800 sets of daily necessities and food to a number of charitable organizations, and actively organized its staff to support "The Community Chest Skip Lunch Day", raising funds for those in need.

During the period under review, the Group's Volunteer Team organized different volunteer activities, contributing 220 volunteer service hours for society. The activities included elderly home visits, packing and distribution of anti-pandemic prevention supplies, meal boxes preparation etc.

In daily operations, the Bank actively employs eco-friendly business practices and advocate resource conservation. By taking part in the Bank's internal "CNCBI-deas" activities, employees conserve a total of 0.2 million sheets of paper.

OUTLOOK

The effect of the pandemic and external shocks have put certain downward pressure on the economy in Mainland China. Hong Kong's economy has gradually recovered since the second quarter, and there is a chance to record moderate growth throughout 2022. Interest income of Hong Kong banks will be supported by rising US interest rates, but challenges will be brought by the global economic slowdown and volatility of external asset markets.

The impact of the fifth wave of the novel COVID-19 pandemic, which began at the beginning of 2022, is progressively waning but still persisting, bringing uncertainty to business environment and turning business outlook challenging. The Group promptly updates its business continuity plan to ensure its normal operation of daily business activities, and strictly complies with the pertinent pandemic prevention regulations of the HKSAR Government to safeguard the safety of its customers and staff. At the same time, the Group actively fulfills its corporate social responsibility by donating anti-epidemic materials to Hong Kong citizens and tiding over the difficult times with the general public.

Under the complex and challenging business prospects, the Group will adopt a more prudent business strategy, optimize asset and liability structure, as well as maintain Fintech promotion and agile cultural transformation to strengthen internal control management, improve operation efficiency and implement ESG sustainability strategies. The Group will actively seize business opportunities brought by development of the Guangdong-Hong Kong-Macao Greater Bay Area and the Northern Metropolitan, continue to deepen the collaboration with the parent bank and CITIC Group, act as overseas core business platform, expand new markets and develop new products to create new business growth.

As a member of Hong Kong financial industry, the Group will take practical actions to implement the Spirit of the President's Important Speech delivered by President Xi Jinping at the meeting celebrating the 25th anniversary of Hong Kong's return to the motherland and the inaugural ceremony of the new Government on 1st July, and vigorously grasp the opportunities of national strategic development to fully release the vitality of business development and support Hong Kong development momentum! We are convinced that with the love and support from all walks of life and the cohesion of our colleagues in the Group, CNCBI will surely be able to become impressive professional bank!

Bi Mingqiang
President & Chief Executive Officer

Hong Kong, 24 August 2022