中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

2023 Interim Results Highlights

Financial Performance

- **Operating income** recorded HK$4.78 billion, a 16.3% year-on-year increase. **Net interest income** rose by 21.1% year-on-year to HK$3.60 billion, and **net interest margin** widened by 27 basis points versus the same period of last year to reach 1.73%. **Non-interest income** increased by 3.7% to reach HK$1.17 billion.
- **Operating expenses** increased by 2.5% year-on-year to HK$2.01 billion. Cost-to-income ratio was 42.2%.
- **Impaired loan ratio** as at end-June 2023 was 2.14%.
- **Impairment losses** increased by 9.3% to HK$0.72 billion.
- **Net profit after tax** was HK$1.82 billion, an increase of 37.8% year-on-year.
- **Total assets** of HK$468.23 billion, representing a 3.7% growth as compared with that as of the end of last year. **Customer loans (including trade bills)** amounted to HK$247.52 billion, similar to that at the end of last year. **Customer deposits (including certificates of deposit issued)** decreased by 4.6% from the end of last year to HK$325.79 billion.
- **Capital adequacy ratio and CET1** ratio met regulatory requirements at 18.3% and 11.9% respectively.

Core Businesses

Wholesale Banking business maintained stable growth. Customer loan balance amounted to HK$156.12 billion during the reporting period, up 0.8% as compared with the end of 2022. The total income achieved HK$2.22 billion, representing year-on-year increases of 7.3%. Both the number of base customers and active customers increased respectively to 2,883 and 2,496, with year-on-year increases of 40.8% and 41.2%. In the first half of 2023, the Group completed the first Escrow and Special Settlement Account Service. Amid the steady development of the green and sustainable finance sector, the green and sustainable finance related loan balance reached HK$8.15 billion, which represented a growth of 5.3% from HK$7.74 billion as of the end of 2022.

Treasury and Markets business recorded substantial growth in global market business with revenue of HK$0.29 billion. The core business maintained a competitive market position. According to Refinitiv, CNCBI ranked among the top three among all Chinese banks in Asia by RMB FX spot trading volume in the first half of 2023. The Group was one of the first offshore market markers for Northbound trading of Swap Connect and actively participated in Southbound trading of the Bond Connect scheme, with a 37.2% year-on-year increase in transaction volume. According to Bloomberg, the Group ranked No. 1 among Chinese banks in the offshore China USD bond league table (excluding self-led deals), and participated in the new issue of approximately 70% of investment-grade bonds. The Group's new issue volume of the Certificates of Deposit at US$16.2 billion, increased by approximately 23 times year-on-year, and the new issue volume of the Medium Term Note at US$1.7 billion, increased by approximately 4 times year-on-year. For client business, income increased by 87.7% year-on-year. The trading volume of repo was HK$4.27 billion, approximately 2.25 times the full year of 2022. As of end-June, total asset size under custody management surpassed US$17.0 billion, with a year-on-year increase of 150%.

Personal and Business Banking business regained business momentum. In the first half of the year, total operating income recorded a growth of 14.8% and non-interest income rose by 11.1% year-on-year. Customer deposit balance increased by 4.3% from the end of last year. The high-net-worth segment recorded a 13.8% increase in customer number. For digital banking services, with the capabilities of the mobile banking flagship platform "inMotion" further stepping up, mobile banking customers increased by nearly 20% compared with the end of last year, and transactions increased by 95.3% year-on-year. For sustainable finance development, green financial products were expanded and dozens of ESG funds and bonds were introduced covering diverse sectors such as energy, agriculture, transportation, communications, nutrition science, etc. Additionally, a customised ESG Insurance product was launched for high-net-worth customers. Economic Digest Edigest Brand Awards 2023 "Best High-Net-Worth Wealth Management Bank" and Ming Pao Awards for Excellence in Finance 2023 "Financial Services – Premier Banking Service Award for Excellence in Users Experience" were awarded.

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 2023 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 2023. The interim financial report is unaudited, but has been reviewed by KPMG, 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").

CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2023 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2023	2022
	Note	***HK$'000***	*HK$'000*
Interest income	*3*	**9,526,218**	4,365,799
Interest expense	*4*	**(5,923,251)**	(1,389,529)
Net interest income		**3,602,967**	2,976,270
Fee and commission income		**780,992**	880,951
Fee and commission expense		**(74,305)**	(66,602)
Net fee and commission income	*5*	**706,687**	814,349
Net trading income	*6*	**406,501**	316,265
Net gain/(loss) on disposal of financial investments at fair value through other comprehensive income		**47,285**	(5,054)
Other operating income	*7*	**13,470**	5,999
Operating income		**4,776,910**	4,107,829
Operating expenses	*8*	**(2,014,341)**	(1,964,341)
Operating profit before impairment		**2,762,569**	2,143,488
Expected credit losses on financial assets	*9*	**(718,010)**	(696,884)
Impairment losses reversed on other assets		**–**	39,822
Impairment losses		**(718,010)**	(657,062)
Operating profit		**2,044,559**	1,486,426
Net (loss)/gain on disposal of property and equipment and intangible assets		**(6,691)**	121
Revaluation gain/(loss) on investment properties	*18*	**5,698**	(5,840)
Profit before taxation		**2,043,566**	1,480,707
Income tax	*10*	**(223,282)**	(159,836)
Profit for the period		**1,820,284**	1,320,871
Profit attributable to shareholders		**1,820,284**	1,320,871

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2023 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Profit for the period	**1,820,284**	1,320,871
Other comprehensive income/(loss) 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	**(64,090)**	(63,507)
Financial investments at fair value through other comprehensive income		
– change in the fair value of debt instruments	**197,593**	(1,312,901)
– transfer to income statement on disposal	**(47,285)**	5,054
– deferred tax related to the above	**(25,327)**	214,404
– transfer to income statement on impairment	**3,941**	48,149
	128,922	(1,045,294)
Items that will not be reclassified subsequently to consolidated income statement		
Financial investments at fair value through other comprehensive income		
– change in fair value of equity instruments	**(5,331)**	10,578
– deferred tax related to the above	**880**	(1,745)
– deferred tax reversed on disposal	**7,106**	–
	2,655	8,833
Other comprehensive income/(loss) for the period	**67,487**	(1,099,968)
Total comprehensive income for the period	**1,887,771**	220,903
Total comprehensive income attributable to shareholders	**1,887,771**	220,903

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2023 – unaudited
(Expressed in Hong Kong dollars)

	Note	**At 30 June 2023** *HK$'000*	At 31 December 2022 *HK$'000*
ASSETS			
Cash and balances with banks and central banks	*12*	**11,750,958**	19,028,255
Placements with and advances to banks	*13*	**62,814,310**	33,839,668
Financial assets held under resale agreements	*14*	**8,145,218**	2,746,540
Derivative financial instruments	*16(b)*	**29,571,577**	23,927,566
Financial investments			
– at fair value through profit or loss	*15(a)*	**840,457**	791,802
– at fair value through other comprehensive income	*15(b)*	**90,018,657**	112,894,375
– at amortised cost	*15(c)*	**48,268**	57,739
Loans and advances to customers and other accounts	*17(a)*	**262,474,656**	255,793,387
Property and equipment	*18*		
– Investment properties		**405,190**	399,492
– Other premises and equipment		**552,946**	418,908
Right-of-use assets	*19*	**808,668**	866,853
Intangible assets	*20*	**411,297**	453,944
Tax recoverable	*25(a)*	**11,268**	14,756
Deferred tax assets	*25(b)*	**381,289**	417,649
Total Assets		**468,234,759**	451,650,934
LIABILITIES AND EQUITY			
Liabilities			
Deposits and balances of banks and other financial institutions		**13,435,003**	9,239,533
Deposits from customers	*21*	**323,974,829**	340,487,879
Financial liabilities at fair value through profit or loss	*22*	**190,225**	249,001
Financial assets sold under resale agreements	*23*	**16,851,237**	3,318,294
Derivative financial instruments	*16(b)*	**28,927,670**	23,355,908
Certificates of deposit issued	*24*	**1,810,266**	1,169,709
Current tax liabilities	*25(a)*	**171,690**	250,467
Deferred tax liabilities	*25(b)*	**1,960**	1,764
Other liabilities	*26*	**21,837,025**	14,086,097
Lease liabilities		**869,889**	907,139
Loan capital	*27*	**3,911,646**	3,890,992
Total Liabilities		**411,981,440**	396,956,783
Equity			
Share capital	*28(a)*	**18,404,013**	18,404,013
Reserves		**24,606,582**	23,047,414
Total shareholders' Equity		**43,010,595**	41,451,427
Other equity instruments	*29*	**13,242,724**	13,242,724
Total Equity		**56,253,319**	54,694,151
Total Equity and Liabilities		**468,234,759**	451,650,934

Approved and authorised for issue by the Board of Directors on 23 August 2023.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2023 – 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*	Total shareholders' equity *HK$'000*	Other equity instruments *HK$'000*	Total equity *HK$'000*
At 1 January 2023	**18,404,013**	**3,771**	**100,000**	**(80,848)**	**294,533**	**(1,196,475)**	**65,748**	**243,972**	**23,616,713**	**23,047,414**	**41,451,427**	**13,242,724**	**54,694,151**
Changes in equity for the six months ended 30 June 2023:													
– Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,820,284**	**1,820,284**	**1,820,284**	**–**	**1,820,284**
– Other comprehensive (loss)/income for the period	**–**	**–**	**–**	**(64,090)**	**–**	**131,577**	**–**	**–**	**–**	**67,487**	**67,487**	**–**	**67,487**
Total comprehensive income for the period	**–**	**–**	**–**	**(64,090)**	**–**	**131,577**	**–**	**–**	**1,820,284**	**1,887,771**	**1,887,771**	**–**	**1,887,771**
Transfer (to)/from retained profits	**–**	**–**	**–**	**–**	**–**	**(43,064)**	**(191)**	**8,512**	**34,743**	**–**	**–**	**–**	**–**
Distribution payment for Additional Tier 1 Capital Securities ("AT1 Capital Securities")	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(328,603)**	**(328,603)**	**(328,603)**	**–**	**(328,603)**
At 30 June 2023	**18,404,013**	**3,771**	**100,000**	**(144,938)**	**294,533**	**(1,107,962)**	**65,557**	**252,484**	**25,143,137**	**24,606,582**	**43,010,595**	**13,242,724**	**56,253,319**
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	41,231,759	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	–	1,320,871
– Other comprehensive loss for the period	–	–	–	(63,507)	–	(1,036,461)	–	–	–	(1,099,968)	(1,099,968)	–	(1,099,968)
Total comprehensive income for the period	–	–	–	(63,507)	–	(1,036,461)	–	–	1,320,871	220,903	220,903	–	220,903
Transfer (to)/from retained profits	–	–	–	–	–	–	(21)	10,694	(10,673)	–	–	–	–
Distribution payment for AT1 Capital Securities	–	–	–	–	–	–	–	–	(215,175)	(215,175)	(215,175)	–	(215,175)
Issue of AT1 Capital Securities	–	–	–	–	–	–	–	–	–	–	–	4,687,907	4,687,907
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	41,237,487	13,242,724	54,480,211
At 1 July 2022	18,404,013	6,589	100,000	(11,969)	294,533	(875,864)	62,814	190,961	23,066,410	22,833,474	41,237,487	13,242,724	54,480,211
Changes in equity for the six months ended 31 December 2022:													
– Profit for the period	–	–	–	–	–	–	–	–	932,369	932,369	932,369	–	932,369
– Other comprehensive loss for the period	–	–	–	(68,879)	–	(320,611)	–	–	–	(389,490)	(389,490)	–	(389,490)
Total comprehensive income for the period	–	–	–	(68,879)	–	(320,611)	–	–	932,369	542,879	542,879	–	542,879
Transfer (to)/from retained profits	–	(2,818)	–	–	–	–	2,934	53,011	(53,127)	–	–	–	–
Distribution payment for AT1 Capital Securities	–	–	–	–	–	–	–	–	(328,939)	(328,939)	(328,939)	–	(328,939)
At 31 December 2022	18,404,013	3,771	100,000	(80,848)	294,533	(1,196,475)	65,748	243,972	23,616,713	23,047,414	41,451,427	13,242,724	54,694,151

CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2023 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2023	2022
	Note	***HK$'000***	*HK$'000*
Net cash flows (used in)/generated from operating activities	*30(a)*	**(16,831,154)**	7,252,677
Cash flows generated from/(used in) investing activities			
Dividends received from equity securities		**1,870**	2,290
Proceeds from disposal of property and equipment		**9**	298
Purchase of property and equipment and intangible assets		**(275,527)**	(118,553)
Net cash flows used in investing activities		**(273,648)**	(115,965)
Cash flows generated from/(used in) financing activities			
Proceeds from AT1 Capital Securities issuance		**–**	4,687,907
Distribution paid on AT1 Capital Securities		**(328,603)**	(215,175)
Payment of lease liabilities		**(133,209)**	(155,850)
Interest paid on loan capital		**(90,766)**	(90,346)
Net cash flows (used in)/generated from financing activities		**(552,578)**	4,226,536
Net (decrease)/increase in cash and cash equivalents		**(17,657,380)**	11,363,248
Cash and cash equivalents at 1 January		**67,858,838**	67,854,091
Exchange differences in respect of cash and cash equivalents		**(426,328)**	(551,897)
Cash and cash equivalents at 30 June	*30(b)*	**49,775,130**	78,665,442

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 2022 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 2022.

The financial information relating to the year ended 31 December 2022 that is included in the interim financial report for the six months ended 30 June 2023 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 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The 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 2022 annual financial statements, which have been prepared in accordance with HKFRSs.

Amendments to HKFRSs effective for the financial year ending 31 December 2023 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) INTEREST INCOME

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Listed securities	**642,142**	550,845
Unlisted securities	**745,014**	188,111
Balances and placements with banks and advances to banks	**1,439,826**	119,515
Advances and other accounts	**6,699,236**	3,507,328
Interest income on financial assets	**9,526,218**	4,365,799
Of which:		
Interest income on financial assets measured at amortised cost	**8,173,583**	3,648,109
Interest income on financial assets measured at fair value through other comprehensive income	**1,352,635**	717,690
	9,526,218	4,365,799

(4) INTEREST EXPENSE

	Six months ended 30 June 2023 HK$'000	2022 HK$'000
Deposits from customers	**5,281,924**	1,199,001
Deposits from banks and other financial institutions	**489,598**	84,148
Certificates of deposit issued	**43,843**	4,331
Loan capital issued	**93,201**	92,955
Lease liabilities	**14,685**	9,094
Interest expense on financial liabilities measured at amortised cost	**5,923,251**	1,389,529

(5) NET FEE AND COMMISSION INCOME

	Six months ended 30 June 2023 HK$'000	2022 HK$'000
Fee and commission income		
Bills commission	**35,428**	41,342
Banking services	**64,191**	61,628
Card-related income	**21,946**	18,947
Debt capital markets	**17,991**	37,941
Insurance	**306,574**	293,595
Investment and structured investment products	**147,566**	119,599
Loans, overdrafts and facilities fees	**186,467**	306,830
Others	**829**	1,069
	780,992	880,951
Fee and commission expense	**(74,305)**	(66,602)
	706,687	814,349
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	**243,841**	367,119
– Fee and commission expense	**(13,822)**	(14,086)
	230,019	353,033

(6) NET TRADING INCOME

	Six months ended 30 June 2023 HK$'000	2022 HK$'000
Net gains from dealing in foreign currencies	**81,627**	255,492
Net gains/(losses) from financial investments at fair value through profit or loss	**32,461**	(21,129)
Net gains/(losses) from other dealing activities	**121,867**	(34,576)
Net hedging loss on fair value hedge	**(126)**	–
Net interest income on trading activities		
– Listed	**(362)**	9,411
– Unlisted	**171,034**	107,067
	406,501	316,265

(7) OTHER OPERATING INCOME

	Six months ended 30 June 2023 *HK$'000*	2022 *HK$'000*
Dividend income		
– Unlisted investment	**1,870**	2,290
Rental income from investment properties	**3,835**	1,851
Others	**7,765**	1,858
	13,470	5,999

(8) OPERATING EXPENSES

	Six months ended 30 June 2023 *HK$'000*	2022 *HK$'000*
(a) Staff costs		
Salaries and other staff costs	**1,171,937**	1,162,819
Retirement costs	**80,373**	73,420
	1,252,310	1,236,239
(b) Depreciation and amortisation		
Depreciation – property and equipment *(note 18)*	**61,424**	73,641
Depreciation – right-of-use assets *(note 19)*	**139,642**	145,494
Amortisation – intangible assets *(note 20)*	**115,335**	118,331
	316,401	337,466
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)	**172,997**	173,045
Auditor's remuneration		
– Audit fee	**3,344**	3,586
– Assurance related services fee	**488**	1,078
– Others	**2,261**	1,121
Advertising	**16,869**	16,030
Communication, printing and stationery	**94,043**	77,263
Electronic data processing	**83,143**	64,553
Legal and professional fees	**14,626**	24,198
Others	**57,859**	29,762
	445,630	390,636
Total operating expenses	**2,014,341**	1,964,341

(9) EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS

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

	Six months ended 30 June 2023			
	Stage 1 *HK$'000*	**Stage 2** *HK$'000*	**Stage 3** *HK$'000*	**Total** *HK$'000*
Balances with banks and central banks	**(537)**	**–**	**–**	**(537)**
Placements with and advances to banks	**6,189**	**–**	**–**	**6,189**
Financial investments at fair value through other comprehensive income	**5,421**	**–**	**(1,480)**	**3,941**
Financial investments at amortised cost	**–**	**–**	**–**	**–**
Loans and advances to customers and other accounts	**(54,918)**	**(70,196)**	**968,871**	**843,757**
Loan commitments and guarantees (included in contingent liabilities and commitments)	**(17,278)**	**274**	**–**	**(17,004)**
	(61,123)	**(69,922)**	**967,391**	**836,346**
Recoveries				**(118,336)**
				718,010

	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
Financial investments at fair value through other comprehensive income	1,116	31,995	15,038	48,149
Financial investments at amortised cost	1	–	–	1
Loans and advances to customers and other accounts	(197,827)	535,174	392,673	730,020
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

(10) INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the period	**206,900**	207,971
Over-provision in respect of prior periods	**(62,926)**	(41,000)
	143,974	166,971
Current tax – Taxation outside Hong Kong		
Provision for the period	**81,433**	49,405
(Over)/under-provision in respect of prior periods	**(20,292)**	1,640
	61,141	51,045
Deferred tax		
Origination of temporary differences *(note 25(b))*	**18,167**	(58,180)
	223,282	159,836

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 2022: 16.5%) of the estimated assessable profits for six months ended 30 June 2023. Taxation for overseas branches and subsidiaries are charged at the appropriate current rates of taxation in the relevant countries.

(11) 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 five reportable segments:

Wholesale banking mainly comprises corporate lending and syndicated loans, trade financing, deposit account services and cash management in Hong Kong and at overseas branches.

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 in Hong Kong and at overseas branches.

Treasury and markets covers the provision of foreign exchange services, money market activities, the management of investment securities and central funding management in Hong Kong and at overseas branches.

Mainland subsidiary is the Bank's wholly owned banking subsidiary operating in Mainland China.

Others mainly comprises unallocated revenue and expenses as well as corporate expenses.

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.

(11) SEGMENT REPORTING (CONTINUED)

(a) Reportable segments

	Wholesale banking HK$'000	Personal and business banking HK$'000	Treasury and markets HK$'000	Mainland subsidiary HK$'000	Others HK$'000	Subtotal HK$'000	Elimination and consolidation adjustments HK$'000	Consolidated HK$'000
	Six months ended 30 June 2023							
Net interest income	1,876,039	1,020,218	(19,811)	136,315	589,624	3,602,385	582	3,602,967
Other operating income	341,944	576,218	136,409	54,909	51,430	1,160,910	(34,252)	1,126,658
Net gain on disposal of financial investments at fair value through other comprehensive income	–	–	44,721	2,564	–	47,285	–	47,285
Operating income	2,217,983	1,596,436	161,319	193,788	641,054	4,810,580	(33,670)	4,776,910
Operating expenses	(194,675)	(570,616)	(167,534)	(111,043)	(998,728)	(2,042,596)	28,255	(2,014,341)
Inter-segment (expenses)/income	(69,230)	(301,026)	(54,890)	–	425,146	–	–	–
Operating profit/(loss) before impairment	1,954,078	724,794	(61,105)	82,745	67,472	2,767,984	(5,415)	2,762,569
Expected credit losses on financial assets	(533,198)	(152,739)	(9,885)	(22,294)	106	(718,010)	–	(718,010)
Operating profit/(loss)	1,420,880	572,055	(70,990)	60,451	67,578	2,049,974	(5,415)	2,044,559
Net loss on disposal of property and equipment and intangible assets	(152)	(32)	(5)	(50)	(6,452)	(6,691)	–	(6,691)
Revaluation gain on investment properties	–	–	–	–	5,698	5,698	–	5,698
Profit/(loss) before taxation	1,420,728	572,023	(70,995)	60,401	66,824	2,048,981	(5,415)	2,043,566
Income tax								(223,282)
Profit for the period								1,820,284
Other segment items:								
Depreciation and amortisation	10,477	65,073	5,880	15,386	219,585	316,401	–	316,401
	At 30 June 2023							
Other segment items:								
Segment assets	155,827,169	77,725,876	236,366,447	17,523,843	10,992,148	498,435,483	(30,200,724)	468,234,759
Segment liabilities	135,343,865	191,945,372	92,673,073	15,823,788	7,155,751	442,941,849	(30,960,409)	411,981,440
Capital expenditure incurred during the period	3,211	391	–	1,759	270,166	275,527	–	275,527

(11) SEGMENT REPORTING (CONTINUED)

(a) Reportable segments (continued)

	Six months ended 30 June 2022							
	Wholesale banking *HK$'000*	Personal and business banking *HK$'000*	Treasury and markets *HK$'000*	Mainland subsidiary *HK$'000*	Others *HK$'000*	Subtotal *HK$'000*	Elimination and consolidation adjustments *HK$'000*	Consolidated *HK$'000*
Net interest income	1,617,378	871,702	344,653	133,786	9,348	2,976,867	(597)	2,976,270
Other operating income	450,239	518,555	123,729	43,123	34,822	1,170,468	(33,855)	1,136,613
Net (loss)/gain on disposal of financial investments at fair value through other comprehensive income	–	–	(16,525)	11,471	–	(5,054)	–	(5,054)
Operating income	2,067,617	1,390,257	451,857	188,380	44,170	4,142,281	(34,452)	4,107,829
Operating expenses	(193,374)	(600,379)	(151,066)	(111,576)	(932,764)	(1,989,159)	24,818	(1,964,341)
Inter-segment (expenses)/income	(71,599)	(300,128)	(52,418)	–	424,145	–	–	–
Operating profit/(loss) before impairment	1,802,644	489,750	248,373	76,804	(464,449)	2,153,122	(9,634)	2,143,488
Expected credit losses on financial assets	(512,544)	(99,655)	(67,903)	(16,861)	79	(696,884)	–	(696,884)
Impairment losses reversed on other assets	–	–	–	39,822	–	39,822	–	39,822
Operating profit/(loss)	1,290,100	390,095	180,470	99,765	(464,370)	1,496,060	(9,634)	1,486,426
Net (loss)/gain on disposal of property and equipment and intangible assets	(1)	(52)	–	–	174	121	–	121
Revaluation loss on investment properties	–	–	–	–	(5,840)	(5,840)	–	(5,840)
Profit/(loss) before taxation	1,290,099	390,043	180,470	99,765	(470,036)	1,490,341	(9,634)	1,480,707
Income tax								(159,836)
Profit for the period								1,320,871
Other segment items:								
Depreciation and amortisation	149	19,603	98	20,041	297,575	337,466	–	337,466

	At 31 December 2022							
Other segment items:								
Segment assets	155,245,016	79,518,003	219,501,962	15,811,362	9,424,714	479,501,057	(27,850,123)	451,650,934
Segment liabilities	159,247,457	183,437,843	61,908,199	14,085,298	6,705,420	425,384,217	(28,427,434)	396,956,783
Capital expenditure incurred during the year	1,101	19,425	35	8,639	216,873	246,073	–	246,073

(11) 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			
	2023 Profit/(loss) before taxation *HK$'000*	2022 Profit before taxation *HK$'000*	**2023 Operating income/(expenses) *HK$'000***	2022 Operating income/(expenses) *HK$'000*
Hong Kong	**1,826,799**	1,211,842	**4,244,978**	3,637,872
Mainland China	**51,561**	100,015	**189,273**	196,281
United States	**(26,091)**	103,044	**167,969**	161,705
Singapore	**185,338**	61,845	**182,250**	118,380
Others	**5,959**	3,900	**20,695**	19,830
Inter-segment items	**–**	61	**(28,255)**	(26,239)
	2,043,566	1,480,707	**4,776,910**	4,107,829

	At 30 June 2023 Total assets *HK$'000*	At 31 December 2022 Total assets *HK$'000*	**At 30 June 2023 Total liabilities *HK$'000***	At 31 December 2022 Total liabilities *HK$'000*
Hong Kong	**435,359,515**	414,503,842	**379,556,850**	360,410,937
Mainland China	**19,628,163**	17,721,065	**18,034,871**	16,118,384
United States	**18,469,156**	16,785,875	**18,504,453**	16,622,008
Singapore	**16,681,096**	21,712,359	**16,498,384**	21,461,099
Others	**2,780,169**	2,136,733	**2,707,987**	2,050,278
Inter-segment items	**(24,683,340)**	(21,208,940)	**(23,321,105)**	(19,705,923)
	468,234,759	451,650,934	**411,981,440**	396,956,783

(12) CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	At 30 June 2023 *HK$'000*	At 31 December 2022 *HK$'000*
Cash in hand	**220,381**	398,444
Balances with central banks	**3,932,664**	8,270,637
Balances with banks	**7,599,204**	10,361,002
	11,752,249	19,030,083
Expected credit losses allowances – Stage 1	**(1,291)**	(1,828)
	11,750,958	19,028,255

Included in the balances with central banks are balances subject to exchange control or regulatory restrictions, amounting to HK$637,787,000 as at 30 June 2023 (31 December 2022: HK$615,033,000).

(13) PLACEMENTS WITH AND ADVANCES TO BANKS

	At 30 June 2023 ***HK$'000***	At 31 December 2022 *HK$'000*
Placements with banks	**59,879,455**	33,031,675
Advances to banks	**2,963,032**	829,981
	62,842,487	33,861,656
Expected credit losses allowances – Stage 1	**(28,177)**	(21,988)
	62,814,310	33,839,668
Maturing:		
– Within 1 month	**42,495,301**	18,724,816
– Between 1 month and 1 year	**20,319,009**	15,114,852
	62,814,310	33,839,668

(14) FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	At 30 June 2023 ***HK$'000***	At 31 December 2022 *HK$'000*
By types of counterparty		
Banks	**4,179,476**	–
Non bank financial institutions	**708,483**	–
Carry amount at fair value through profit or loss	**4,887,959**	–
Banks	**–**	167,704
Non bank financial institutions	**3,257,259**	2,578,836
Gross amount at amortized cost	**3,257,259**	2,746,540
Expected credit losses allowances	**–**	–
Net amount at amortised cost	**3,257,259**	2,746,540
Total amount	**8,145,218**	2,746,540

By types of collateral

As at 30 June 2023 and 31 December 2022, the Group's types of collateral for financial assets held under resale agreements are all bonds.

(15) FINANCIAL INVESTMENTS

(a) At fair value through profit or loss

	At 30 June 2023 HK$'000	At 31 December 2022 HK$'000
Debt securities		
Debt securities	**840,457**	683,252
Treasury bills	**–**	108,550
	840,457	791,802
Issued by:		
Sovereigns	**199,052**	506,983
Banks and other financial institutions	**524,200**	175,321
Corporate entities	**117,205**	109,498
	840,457	791,802
Listed	**737,977**	645,800
Unlisted	**102,480**	146,002
	840,457	791,802

(b) At fair value through other comprehensive income

	At 30 June 2023 HK$'000	At 31 December 2022 HK$'000
Debt securities		
Certificates of deposit held	**6,476,134**	3,990,667
Treasury bills	**22,108,729**	56,691,447
Other debt securities	**61,364,121**	52,092,832
	89,948,984	112,774,946
Equity securities	**69,673**	119,429
	90,018,657	112,894,375
Issued by:		
Sovereigns	**34,281,089**	64,872,217
Banks and other financial institutions	**39,223,456**	35,361,447
Corporate entities	**12,307,310**	11,182,833
Public entities	**4,206,802**	1,477,878
	90,018,657	112,894,375
Listed	**45,439,100**	44,047,192
Unlisted	**44,579,557**	68,847,183
	90,018,657	112,894,375

(15) FINANCIAL INVESTMENTS (CONTINUED)

(c) At amortised costs

	At 30 June 2023 *HK$'000*	At 31 December 2022 *HK$'000*
Debt securities		
Treasury bills	**48,271**	57,742
Expected credit losses allowances – Stage 1	**(3)**	(3)
	48,268	57,739
Issued by:		
Sovereigns	**48,268**	57,739
Unlisted	**48,268**	57,739

(16) DERIVATIVE FINANCIAL INSTRUMENTS

(a) Notional amounts of derivatives

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

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

	At 30 June 2023 *HK$'000*	At 31 December 2022 *HK$'000*
Currency derivatives		
Forwards	**81,812,418**	56,628,912
Swaps	**1,080,293,891**	956,687,728
Options purchased	**94,130,261**	58,106,983
Options written	**92,828,192**	56,956,703
Interest rate derivatives		
Forwards/Futures	**156,687**	3,134,821
Swaps	**1,326,073,485**	978,677,761
Options purchased	**4,050,955**	3,036,822
Options written	**4,050,955**	3,036,822
	2,683,396,844	2,116,266,552

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.

(16) DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(b) Fair values of derivatives

	At 30 June 2023		At 31 December 2022	
	Fair value assets ***HK$'000***	**Fair value liabilities** ***HK$'000***	Fair value assets *HK$'000*	Fair value liabilities *HK$'000*
Currency derivatives	**17,445,084**	**16,974,583**	11,960,459	11,398,101
Interest rate derivatives	**12,126,493**	**11,953,087**	11,967,107	11,957,807
	29,571,577	**28,927,670**	23,927,566	23,355,908

(c) Fair value of derivatives designated as hedging instruments

The following is a summary of the fair value of derivatives held for hedging purposes by product type entered into by the Group:

	At 30 June 2023		At 31 December 2022	
	Fair value assets ***HK$'000***	**Fair value liabilities** ***HK$'000***	Fair value assets *HK$'000*	Fair value liabilities *HK$'000*
Interest rate contracts				
– Fair value hedge	**13,067**	**–**	10,095	–

Fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of certain fixed rate assets or liabilities due to movements in the market interest rates.

As at 30 June 2023, the notional amount of interest rate swaps held for hedging amounted to HK$791,269,000 (31 December 2022: HK$678,431,000).

(16) DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(d) 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 2023			
	Notional amounts with remaining life of			
	Total	**1 year or less**	**Over 1 year to 5 years**	**Over 5 years**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Currency derivatives	**1,349,064,762**	**1,245,369,320**	**102,646,595**	**1,048,847**
Interest rate derivatives	**1,334,332,082**	**785,664,040**	**513,900,234**	**34,767,808**
	2,683,396,844	**2,031,033,360**	**616,546,829**	**35,816,655**

	At 31 December 2022			
	Notional amounts with remaining life of			
	Total	1 year or less	Over 1 year to 5 years	Over 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Currency derivatives	1,128,380,326	1,017,439,596	109,744,930	1,195,800
Interest rate derivatives	987,886,226	459,493,485	494,327,082	34,065,659
	2,116,266,552	1,476,933,081	604,072,012	35,261,459

(17) LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

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

	At 30 June 2023	At 31 December 2022
	HK$'000	*HK$'000*
Loans and advances to customers at amortised cost		
Gross loans and advances to customer	**242,459,794**	243,029,952
Expected credit losses allowances	**(1,410,867)**	(1,377,634)
	241,048,927	241,652,318
Loans and advances to customers at fair value through profit and loss	**5,060,209**	3,768,163
	246,109,136	245,420,481
Other accounts	**17,024,907**	10,867,014
Expected credit losses allowances	**(659,387)**	(494,108)
	16,365,520	10,372,906
	262,474,656	255,793,387

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

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

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

	At 30 June 2023		At 31 December 2022	
	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	**5,798,457**	**68**	7,140,999	56
– Property investment	**23,359,576**	**99**	19,237,739	98
– Financial concerns	**24,504,480**	**5**	20,211,822	6
– Stockbrokers	**3,235,647**	**15**	4,409,499	40
– Wholesale and retail trade	**9,718,286**	**85**	10,065,083	85
– Manufacturing	**7,318,910**	**28**	5,079,735	31
– Transport and transport equipment	**2,210,768**	**22**	1,949,088	23
– Recreational activities	**761,958**	**2**	851,625	3
– Information technology	**790,042**	**6**	3,914,083	1
– Others	**9,002,690**	**78**	8,559,229	89
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**17,811**	**100**	18,568	100
– Loans for the purchase of other residential properties	**23,037,628**	**100**	23,018,616	100
– Credit card advances	**598,350**	**–**	715,283	–
– Others	**19,084,975**	**90**	19,918,902	93
Gross loans and advances for use in Hong Kong	**129,439,578**	**67**	125,090,271	68
Trade finance	**5,431,763**	**24**	6,320,760	22
Gross loans and advances for use outside Hong Kong	**112,648,662**	**19**	115,387,084	18
Gross loans and advances to customers	**247,520,003**	**44**	246,798,115	44

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

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

	Six months ended 30 June 2023			
	Stage 1 *HK$'000*	Stage 2 *HK$'000*	Stage 3 *HK$'000*	Total *HK$'000*
ECL allowances				
At 1 January 2023	**702,523**	**423,007**	**746,212**	**1,871,742**
Transfer:				
– Transfer to Stage 1	**11,257**	**(11,257)**	**–**	**–**
– Transfer to Stage 2	**(12,949)**	**13,012**	**(63)**	**–**
– Transfer to Stage 3	**(220)**	**(151,022)**	**151,242**	**–**
Changes arising from transfer of stage	**(8,842)**	**63,454**	**264,326**	**318,938**
Net charge/(reversal) for the period arising from net change in exposures	**71,938**	**(6,455)**	**137,145**	**202,628**
Changes in risk parameters and model inputs	**(116,102)**	**22,072**	**416,221**	**322,191**
Amount written-offs	**–**	**–**	**(675,213)**	**(675,213)**
Other movements	**–**	**–**	**29,968**	**29,968**
At 30 June 2023	**647,605**	**352,811**	**1,069,838**	**2,070,254**

	Six months ended 30 June 2023			
	Stage 1 *HK$'000*	Stage 2 *HK$'000*	Stage 3 *HK$'000*	Total *HK$'000*
Gross carrying amount				
At 1 January 2023	**238,931,488**	**9,805,211**	**4,660,605**	**253,397,304**
Transfer:				
– Transfer to Stage 1	**1,268,626**	**(1,268,626)**	**–**	**–**
– Transfer to Stage 2	**(3,279,858)**	**3,298,283**	**(18,425)**	**–**
– Transfer to Stage 3	**(241,396)**	**(1,953,925)**	**2,195,321**	**–**
Net change in exposures	**6,639,215**	**(222,540)**	**(369,612)**	**6,047,063**
Amount written-offs	**–**	**–**	**(675,213)**	**(675,213)**
Other movements	**–**	**–**	**164,999**	**164,999**
At 30 June 2023	**243,318,075**	**9,658,403**	**5,957,675**	**258,934,153**

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

	At 30 June 2023			
	Stage 1 *HK$'000*	Stage 2 *HK$'000*	Stage 3 *HK$'000*	Total *HK$'000*
ECL allowances				
Loans and advances to customers	**646,857**	**352,811**	**411,199**	**1,410,867**
Other accounts *(note)*	**748**	**–**	**658,639**	**659,387**
	647,605	**352,811**	**1,069,838**	**2,070,254**
Gross carrying amount				
Loans and advances to customers	**227,502,355**	**9,658,403**	**5,299,036**	**242,459,794**
Other accounts *(note)*	**15,815,720**	**–**	**658,639**	**16,474,359**
	243,318,075	**9,658,403**	**5,957,675**	**258,934,153**

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

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

	2022			
	Stage 1 *HK$'000*	Stage 2 *HK$'000*	Stage 3 *HK$'000*	Total *HK$'000*
ECL allowances				
At 1 January 2022	1,143,819	174,967	899,381	2,218,167
Transfer:				
– Transfer to Stage 1	58,307	(58,285)	(22)	–
– Transfer to Stage 2	(202,689)	252,364	(49,675)	–
– Transfer to Stage 3	(349)	(428,113)	428,462	–
Changes arising from transfer of stage	(25,813)	370,114	565,755	910,056
Net charge/(reversal) for the year arising from net change in exposures	219,810	(163,986)	(659,002)	(603,178)
Changes in risk parameters and model inputs	(490,562)	275,946	1,807,666	1,593,050
Amount written-offs	–	–	(2,261,812)	(2,261,812)
Other movements	–	–	15,459	15,459
At 31 December 2022	702,523	423,007	746,212	1,871,742

	2022			
	Stage 1 *HK$'000*	Stage 2 *HK$'000*	Stage 3 *HK$'000*	Total *HK$'000*
Gross carrying amount				
At 1 January 2022	236,382,675	9,877,360	2,599,090	248,859,125
Transfer:				
– Transfer to Stage 1	5,008,424	(5,008,402)	(22)	–
– Transfer to Stage 2	(13,563,406)	13,761,323	(197,917)	–
– Transfer to Stage 3	(117,591)	(6,000,607)	6,118,198	–
Net change in exposures	11,221,386	(2,824,463)	(1,775,722)	6,621,201
Amount written-offs	–	–	(2,261,812)	(2,261,812)
Other movements	–	–	178,790	178,790
At 31 December 2022	238,931,488	9,805,211	4,660,605	253,397,304

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

	At 31 December 2022			
	Stage 1 *HK$'000*	Stage 2 *HK$'000*	Stage 3 *HK$'000*	Total *HK$'000*
ECL allowances				
Loans and advances to customers	702,055	423,007	252,572	1,377,634
Other accounts *(note)*	468	–	493,640	494,108
	702,523	423,007	746,212	1,871,742
Gross carrying amount				
Loans and advances to customers	229,057,776	9,805,211	4,166,965	243,029,952
Other accounts *(note)*	9,873,712	–	493,640	10,367,352
	238,931,488	9,805,211	4,660,605	253,397,304

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 consolidated balance sheet have also included other assets not subject to impairment requirements under HKFRS 9.

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

(d) Impaired loans and advances to customers

	At 30 June 2023 *HK$'000*	At 31 December 2022 *HK$'000*
Gross impaired loans and advances to customers	**5,299,036**	4,166,965
Expected credit losses allowances – Stage 3	**(411,199)**	(252,572)
	4,887,837	3,914,393
Gross impaired loans and advances as a % of total loans and advances to customers	**2.14%**	1.69%

As at 30 June 2023, the secured gross impaired loans and advances to customers amounts to HK$3,309,241,000 (31 December 2022: HK$2,502,023,000) are backed by collateral, collateral mainly comprises mortgages on residential or commercial properties and cash placed with the Group.

(e) Further analysis on loan and advances to customers

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 customers accounted for 10% or more of the total gross loans and advances to customers, are as follows:

	At 30 June 2023			
	Stage 1 ECL allowances *HK$'000*	**Stage 2 ECL allowances** *HK$'000*	**Stage 3 ECL allowances** *HK$'000*	**Impaired loans and advances to customers** *HK$'000*
Gross loans and advances for use outside Hong Kong	**479,958**	**272,524**	**203,755**	**2,915,013**

	At 31 December 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*
Gross loans and advances for use outside Hong Kong	512,865	370,087	114,926	2,390,194

(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 2023	**399,492**	**616,996**	**1,008,372**	**2,024,860**
Additions	**–**	**–**	**202,711**	**202,711**
Disposals	**–**	**–**	**(152,623)**	**(152,623)**
Surplus on revaluation	**5,698**	**–**	**–**	**5,698**
Exchange adjustments	**–**	**–**	**(3,177)**	**(3,177)**
At 30 June 2023	**405,190**	**616,996**	**1,055,283**	**2,077,469**
At 1 January 2022	446,607	616,996	1,178,241	2,241,844
Additions	–	–	99,232	99,232
Disposals	–	–	(261,914)	(261,914)
Deficit on revaluation	(47,115)	–	–	(47,115)
Exchange adjustments	–	–	(7,187)	(7,187)
At 31 December 2022	399,492	616,996	1,008,372	2,024,860
Accumulated depreciation:				
At 1 January 2023	**–**	**382,707**	**823,753**	**1,206,460**
Charge for the period *(note 8(b))*	**–**	**7,734**	**53,690**	**61,424**
Written back on disposals	**–**	**–**	**(145,923)**	**(145,923)**
Exchange adjustments	**–**	**–**	**(2,628)**	**(2,628)**
At 30 June 2023	**–**	**390,441**	**728,892**	**1,119,333**
At 1 January 2022	–	367,239	948,789	1,316,028
Charge for the year	–	15,468	136,685	152,153
Written back on disposals	–	–	(256,538)	(256,538)
Exchange adjustments	–	–	(5,183)	(5,183)
At 31 December 2022	–	382,707	823,753	1,206,460
Net book value:				
At 30 June 2023	**405,190**	**226,555**	**326,391**	**958,136**
At 31 December 2022	399,492	234,289	184,619	818,400

Investment properties

All investment properties of the Group were revalued and assessed by the management of the Group as at 30 June 2023 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 surplus of HK$5,698,000 (year ended 31 December 2022: a revaluation deficit of HK$47,115,000; and six month ended 30 June 2022: a revaluation deficit of HK$5,840,000) was recognised by the Group and has been charged to the consolidated income statement for the six month ended 30 June 2023.

(19) RIGHT-OF-USE ASSETS

	Leased premises *HK$'000*	Equipment and others *HK$'000*	Total *HK$'000*
Cost:			
At 1 January 2023	**1,638,274**	**1,887**	**1,640,161**
Additions	**83,947**	**–**	**83,947**
Reductions	**(450,421)**	**–**	**(450,421)**
Adjustments	**(613)**	**–**	**(613)**
Exchange adjustments	**(2,867)**	**(11)**	**(2,878)**
At 30 June 2023	**1,268,320**	**1,876**	**1,270,196**
At 1 January 2022	1,127,117	1,876	1,128,993
Additions	589,690	–	589,690
Reductions	(73,806)	–	(73,806)
Adjustments	325	–	325
Exchange adjustments	(5,052)	11	(5,041)
At 31 December 2022	1,638,274	1,887	1,640,161
Accumulated depreciation:			
At 1 January 2023	**771,754**	**1,554**	**773,308**
Charge for the period *(note 8(b))*	**139,489**	**153**	**139,642**
Reductions	**(450,421)**	**–**	**(450,421)**
Exchange adjustments	**(990)**	**(11)**	**(1,001)**
At 30 June 2023	**459,832**	**1,696**	**461,528**
At 1 January 2022	568,648	1,242	569,890
Charge for the year	295,598	298	295,896
Reductions	(73,806)	–	(73,806)
Adjustments	(16,597)	–	(16,597)
Exchange adjustments	(2,089)	14	(2,075)
At 31 December 2022	771,754	1,554	773,308
Net book value:			
At 30 June 2023	**808,488**	**180**	**808,668**
At 31 December 2022	866,520	333	866,853

(20) INTANGIBLE ASSETS

	Software *HK$'000*
Cost:	
At 1 January 2023	**1,685,551**
Additions	**72,816**
Disposals	**(42)**
Exchange adjustments	**(704)**
At 30 June 2023	**1,757,621**
At 1 January 2022	1,784,995
Additions	146,841
Disposals	(243,108)
Exchange adjustments	(3,177)
At 31 December 2022	1,685,551
Accumulated amortisation:	
At 1 January 2023	**1,231,607**
Charge for the period *(note 8(b))*	**115,335**
Disposals	**(42)**
Exchange adjustments	**(576)**
At 30 June 2023	**1,346,324**
At 1 January 2022	1,245,216
Charge for the year	231,763
Disposals	(242,731)
Exchange adjustments	(2,641)
At 31 December 2022	1,231,607
Net book value:	
At 30 June 2023	**411,297**
At 31 December 2022	453,944

(21) DEPOSITS FROM CUSTOMERS

	At 30 June 2023 ***HK$'000***	At 31 December 2022 *HK$'000*
Demand deposits and current deposits	**33,181,224**	37,938,763
Savings deposits	**50,557,121**	56,436,071
Time, call and notice deposits	**240,236,484**	246,113,045
	323,974,829	340,487,879

(22) FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 June 2023 ***HK$'000***	At 31 December 2022 *HK$'000*
Short positions of debt securities	**190,225**	249,001

(23) FINANCIAL ASSETS SOLD UNDER RESALE AGREEMENTS

	At 30 June 2023 ***HK$'000***	At 31 December 2022 *HK$'000*
By types of counterparty		
Banks	**4,695,980**	–
Non bank financial institutions	**79,479**	–
Carry amount at fair value through profit or loss	**4,775,459**	–
Banks	**12,075,778**	3,255,764
Non bank financial institutions	**–**	62,530
Carry amount at amortised cost	**12,075,778**	3,318,294
Total amount	**16,851,237**	3,318,294
By types of collateral		
Bonds	**16,851,237**	3,318,294

The Group did not derecognize financial assets used as collateral in connection with financial assets sold under repurchase agreements. As at 30 June 2023 and 31 December 2022, no legal title of the collateral has been transferred to counterparties.

(24) CERTIFICATES OF DEPOSIT ISSUED

	At 30 June 2023 ***HK$'000***	At 31 December 2022 *HK$'000*
At amortised cost	**1,810,266**	1,169,709

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

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

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

	At 30 June 2023 ***HK$'000***	At 31 December 2022 *HK$'000*
Hong Kong Profits Tax	**138,303**	173,862
Taxation outside Hong Kong	**22,119**	61,849
	160,422	235,711
Of which:		
Tax recoverable	**(11,268)**	(14,756)
Current tax liabilities	**171,690**	250,467
	160,422	235,711

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

(b) Deferred tax assets and liabilities recognised

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

	Depreciation allowances in excess of related depreciation *HK$'000*	Impairment allowances for loans and advances *HK$'000*	Revaluation adjustments for properties *HK$'000*	Revaluation adjustments for FVOCI *HK$'000*	Tax losses *HK$'000*	Others *HK$'000*	Total *HK$'000*
Deferred tax arising from:							
At 1 January 2023	**88,971**	**(209,071)**	**961**	**(279,701)**	**–**	**(17,045)**	**(415,885)**
Charged/(credited) to consolidated income statement *(note 10)*	**386**	**24,376**	**34**	**–**	**(5,500)**	**(1,129)**	**18,167**
Charged to reserves	**–**	**–**	**–**	**17,341**	**–**	**–**	**17,341**
Exchange and other adjustments	**11**	**990**	**–**	**–**	**–**	**47**	**1,048**
At 30 June 2023	**89,368**	**(183,705)**	**995**	**(262,360)**	**(5,500)**	**(18,127)**	**(379,329)**
At 1 January 2022	102,379	(249,099)	1,541	(9,893)	–	(12,273)	(167,345)
(Credited)/charged to consolidated income statement	(13,524)	39,448	(580)	–	–	(5,226)	20,118
Credited to reserves	–	–	–	(269,808)	–	–	(269,808)
Exchange and other adjustments	116	580	–	–	–	454	1,150
At 31 December 2022	88,971	(209,071)	961	(279,701)	–	(17,045)	(415,885)

	At 30 June 2023 ***HK$'000***	At 31 December 2022 *HK$'000*
Net deferred tax assets recognised in the consolidated statement of financial position	**(381,289)**	(417,649)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**1,960**	1,764
	(379,329)	(415,885)

(c) Deferred tax assets not recognised

For the period ended 30 June 2023 and year ended 31 December 2022, the amount of deferred tax assets recognised on tax losses is immaterial.

(26) OTHER LIABILITIES

	At 30 June 2023 *HK$'000*	At 31 December 2022 *HK$'000*
Accruals and other payables and provisions	**19,376,085**	11,658,707
Deposit from an immediate holding company	**2,460,940**	2,427,390
	21,837,025	14,086,097

At 30 June 2023, included above is the expected credit losses allowances on loan commitments and guarantees for Stage 1 and Stage 2 amounted to HK$106,753,000 and HK$2,333,000 respectively (31 December 2022: Stage 1: HK$124,031,000 and Stage 2: HK$2,059,000).

At 30 June 2023, the amount of interest payables from financial liabilities at amortised costs were HK$2,689,361,000 (31 December 2022: HK$2,068,140,000).

(27) LOAN CAPITAL

	At 30 June 2023 *HK$'000*	At 31 December 2022 *HK$'000*
Subordinated notes, at amortised cost:		
US$500 million Subordinated Fixed Rate Notes at 4.625%, due 2029	**3,911,646**	3,890,992

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.

(28) CAPITAL AND RESERVES

(a) Share capital

(i) Ordinary shares, issued and fully paid:

	At 30 June 2023		At 31 December 2022	
	No. of shares	**Share Capital** *HK$'000*	No. of shares	Share Capital *HK$'000*
At 1 January/ 30 June/ 31 December	**12,111,121,568**	**18,404,013**	12,111,121,568	18,404,013

(28) CAPITAL AND RESERVES (CONTINUED)

(b) 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.

(c) 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 investments 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 Bank. 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 of the Bank 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. As at 30 June 2023, HK$2,478,586,000 (31 December 2022: HK$2,326,333,000) was included in retained profits in this respect, which is distributable to equity holders of the Bank subject to consultation with the HKMA.

(29) OTHER EQUITY INSTRUMENTS

	At 30 June 2023 HK$'000	At 31 December 2022 HK$'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**	4,687,907
	13,242,724	13,242,724

* 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$139,312,000) was paid during six months ended 30 June 2023 (for the year ended 31 December 2022: US$35,500,000, equivalent to HK$278,610,000).

** 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$76,186,000) was paid during six months ended 30 June 2023 (for the year ended 31 December 2022: US$19,500,000, equivalent to HK$152,458,000).

*** 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). A distribution payment of US$14,400,000 (equivalent to HK$113,105,000) was paid during six months ended 30 June 2023 (for the year ended 31 December 2022: US$14,400,000, equivalent to HK$113,046,000).

(30) NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Six months ended 30 June **2023** *HK$'000*	2022 *HK$'000*
Operating activities		
Profit before taxation	**2,043,566**	1,480,707
Adjustments for non-cash items:		
Expected credit losses charged on financial assets	**718,010**	696,884
Impairment losses reversed on other assets	**–**	(39,822)
Net (gain)/loss on disposal of financial investments at fair value through other comprehensive income	**(47,285)**	5,054
Net loss/(gain) on disposal of property and equipment and intangible assets	**6,691**	(121)
Revaluation (gain)/loss on investment properties	**(5,698)**	5,840
Amortisation of deferred expenses	**143,942**	124,615
Amortisation of intangible assets	**115,335**	118,331
Depreciation on property and equipment	**61,424**	73,641
Depreciation on right-of-use assets	**139,642**	145,494
Dividend income from equity securities	**(1,870)**	(2,290)
Interest expense on loan capital	**93,201**	92,955
Foreign exchange differences	**386,074**	522,152
Operating profit before changes in working capital	**3,653,032**	3,223,440
Net (increase)/decrease in operating assets		
Placements with and advances to banks with original maturity beyond 3 months	**(17,019,387)**	(677,878)
Financial assets held under resale agreements	**(5,398,678)**	(930,452)
Treasury bills with original maturity beyond 3 months	**11,848,044**	8,296,633
Certificates of deposit held with original maturity beyond 3 months	**(2,400,087)**	(2,221,664)
Financial investments at fair value through profit or loss	**(157,204)**	1,699,481
Financial investments at fair value through other comprehensive income	**(9,029,270)**	(2,654,583)
Derivative financial instruments	**(5,644,011)**	(8,831,497)
Loans and advances to customers and other accounts	**(7,552,543)**	(17,878,411)
	(35,353,136)	(23,198,371)
Net increase/(decrease) in operating liabilities		
Deposits and balances of banks and other financial institutions	**4,195,470**	(3,277,544)
Deposits from customers	**(16,513,050)**	8,286,282
Financial liabilities at fair value through profit or loss	**(58,776)**	(215,592)
Financial assets sold under resale agreements	**13,533,501**	2,615,640
Derivative financial instruments	**5,571,761**	7,859,192
Certificates of deposit issued	**655,070**	5,623
Other liabilities	**7,761,058**	11,971,789
	15,145,034	27,245,390
Cash (used in)/generated from operating activities	**(16,555,070)**	7,270,459
Income tax paid		
Hong Kong Profits Tax paid	**(177,624)**	–
Taxation outside Hong Kong paid	**(98,460)**	(17,782)
Net cash flows (used in)/generated from operating activities	**(16,831,154)**	7,252,677
Cash flows from operating activities include:		
Interest received	**8,676,856**	4,210,894
Interest paid	**(5,236,364)**	(834,674)

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

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

	At 30 June 2023	At 30 June 2022
	HK$'000	*HK$'000*
Cash and balances with banks and central banks	**11,114,462**	27,401,374
Placements with and advances to banks with original maturity within 3 months	**30,738,117**	32,827,031
Treasury bills and certificates of deposit held with original maturity within 3 months		
– at fair value through other comprehensive income	**7,874,281**	18,378,984
– at amortised cost	**48,270**	58,053
	49,775,130	78,665,442

(c) Changes in liabilities arising from financing activities

(i) Loan capital	**2023**	2022
	HK$'000	*HK$'000*
At 1 January	**3,890,992**	3,883,863
Foreign exchange differences	**18,107**	24,047
Other non-cash adjustments	**2,547**	2,468
At 30 June	**3,911,646**	3,910,378

(ii) Lease Liabilities	**2023**	2022
	HK$'000	*HK$'000*
At 1 January	**907,139**	592,621
Payment of lease liabilities	**(133,209)**	(155,850)
Other non-cash items:		
– Additions	**83,947**	21,696
– Adjustments	**(613)**	–
– Other changes	**12,625**	6,807
At 30 June	**869,889**	465,274

(31) ASSETS PLEDGED AS SECURITY

	At 30 June 2023 *HK$'000*	At 31 December 2022 *HK$'000*
Financial investments at fair value through other comprehensive income pledged as:		
– Statutory deposits *(note)*	**289,632**	304,165
– Collateral under sale and repurchase transactions	**12,579,353**	3,027,232
	12,868,985	3,331,397
Financial investments at fair value through profit or loss pledged as:		
– Collateral under sale and repurchase transactions	**–**	112,533
Other assets pledged as collateral under sale and repurchase transaction	**–**	425,766
	12,868,985	3,869,696

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.

(32) MATERIAL RELATED-PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial report, 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 gross carrying 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									
	2023 ***HK$'000***	2022 *HK$'000*	**2023** ***HK$'000***	2022 *HK$'000*	**2023** ***HK$'000***	2022 *HK$'000*	**2023** ***HK$'000***	2022 *HK$'000*	**2023** ***HK$'000***	2022 *HK$'000*
Interest income	**11,772**	958	**–**	–	**195,766**	70,783	**80,445**	14,346	**–**	–
Interest expense	**(12,374)**	(2,124)	**(39,555)**	(7,983)	**(77,064)**	(11,837)	**(46,224)**	(35,657)	**(2)**	–
Fee and commission income	**4,219**	–	**–**	–	**791**	3,971	**70**	467	**–**	–
Net trading income/(loss)	**51,643**	(202,508)	**–**	–	**(4,156)**	74,020	**(4,181)**	(171,134)	**–**	–
Operating expenses	**(2,242)**	(2,466)	**–**	–	**(31,010)**	(10,359)	**(2,085)**	(2,317)	**–**	–

(32) 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 2023 / 31 December 2022									
Assets										
Financial investments at fair value through other comprehensive income	**143,723**	–	**–**	–	**633,512**	404,311	**340,884**	562,023	**–**	–
Derivative financial instruments	**79,752**	254,526	**–**	–	**176,972**	6,624	**–**	50,048	**–**	–
Other receivables	**13,046**	71,772	**1,660**	5,548	**31,253**	108,061	**5,563**	8,231	**–**	–
Liabilities										
Derivative financial instruments	**94,102**	287,809	**–**	–	**26,757**	105,579	**878**	11,838	**–**	–
Other payables	**348**	39,829	**8,140**	11,600	**49,067**	20,401	**24,615**	282,206	**–**	–
Lease liabilities	**–**	–	**–**	–	**334**	1,325	**6,593**	10,452	**–**	–
Lending activities:										
At 30 June / 31 December	**1,563,801**	1,830,325	**–**	–	**7,849,705**	6,131,074	**2,821,476**	1,587,753	**–**	–
Average for the period / year	**1,742,979**	579,774	**–**	–	**6,712,446**	6,899,114	**2,333,294**	786,324	**149,193**	–
Acceptance of deposits:										
At 30 June / 31 December	**1,070,999**	737,811	**2,442,560**	2,410,900	**4,972,850**	4,358,109	**2,503,554**	4,354,764	**1,231**	41,004
Average for the period / year	**826,171**	1,422,290	**2,434,619**	2,380,261	**3,936,225**	4,493,629	**4,608,715**	6,047,449	**14,759**	21,259
	At 30 June 2023 / 31 December 2022									
Off-statement of financial position items										
Other commitments	**–**	–	**–**	–	**82,261**	220,955	**454,392**	204,699	**–**	–
Derivative financial instruments – notional amounts	**13,050,714**	17,464,130	**–**	–	**7,636,890**	1,704,424	**27,018**	10,488,221	**–**	–

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 2023 were similar in nature to those disclosed in the 2022 Annual Report. There were no changes in the relevant transactions described in the 2022 Annual Report that have had a material effect on the financial position or performance of the Group in the first half of 2023.

(33) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

(i) Fair value hierarchy

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

	Fair value measurements as at 30 June 2023 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 held under resale agreements				
– At fair value through profit or loss	**4,887,959**	**–**	**4,887,959**	**–**
Derivative financial instruments				
– Positive fair value of derivatives	**29,571,577**	**–**	**29,571,577**	**–**
Financial investments				
– At fair value through profit or loss				
– Debt securities	**840,457**	**731,600**	**108,857**	**–**
– At fair value through other comprehensive income				
– Certificates of deposit held	**6,476,134**	**865,873**	**5,610,261**	**–**
– Treasury bills	**22,108,729**	**22,108,729**	**–**	**–**
– Other debt securities	**61,364,121**	**50,637,453**	**10,685,301**	**41,367**
– Equity securities	**69,673**	**–**	**–**	**69,673**
	90,018,657	**73,612,055**	**16,295,562**	**111,040**
	125,318,650	**74,343,655**	**50,863,955**	**111,040**
Liabilities				
Financial liabilities at fair value through profit or loss				
– Short sales of debt securities	**190,225**	**190,225**	**–**	**–**
Financial assets sold under resale agreements				
– At fair value through profit or loss	**4,775,459**	**–**	**4,775,459**	**–**
Derivative financial instruments				
– Negative fair value of derivatives	**28,927,670**	**1,449**	**28,926,221**	**–**
	33,893,354	**191,674**	**33,701,680**	**–**

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

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

(i) Fair value hierarchy (continued)

	Fair value measurements as at 31 December 2022 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*
Recurring fair value measurements				
Assets				
Derivative financial instruments				
– Positive fair value of derivatives	23,927,566	673	23,926,893	–
Financial investments				
– At fair value through profit or loss				
– Debt securities	683,252	670,743	12,509	–
– Treasury bills	108,550	108,550	–	–
	791,802	779,293	12,509	–
– At fair value through other comprehensive income				
– Certificates of deposit held	3,990,667	638,970	3,351,697	–
– Treasury bills	56,691,447	56,691,447	–	–
– Other debt securities	52,092,832	44,995,814	7,081,298	15,720
– Equity securities	119,429	–	–	119,429
	112,894,375	102,326,231	10,432,995	135,149
	137,613,743	103,106,197	34,372,397	135,149
Liabilities				
Financial liabilities at fair value through profit or loss				
– Short sales of debt securities	249,001	240,367	8,634	–
Derivative financial instruments				
– Negative fair value of derivatives	23,355,908	966	23,354,942	–
	23,604,909	241,333	23,363,576	–

During six months ended 30 June 2023 and year ended 31 December 2022, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy. For transfer in and out of Level 3 measurements see the note 33(a) (iii) below.

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

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

(ii) Determination of fair value

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

Level 1

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

Level 2

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

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

Level 3

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

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

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

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

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

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

(iii) Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs
Other debt securities	Discounted cash flow model	Forecasted cash flows
Equity securities	Dividend growth model	Forecasted dividend and estimated risk-free rate

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:

	Financial investments at fair value through other comprehensive income		
Assets	**Other debt securities** ***HK$'000***	**Equity securities** ***HK$'000***	**Total** ***HK$'000***
At 1 January 2023	**15,720**	**119,429**	**135,149**
Transfer from level 1	**25,945**	**–**	**25,945**
Settlements	**(3,531)**	**(44,440)**	**(47,971)**
Gains recognised in consolidated income statement	**55**	**16**	**71**
Gains/(losses) recognised in other comprehensive income	**3,178**	**(5,332)**	**(2,154)**
At 30 June 2023	**41,367**	**69,673**	**111,040**
Total gains for the period included in the consolidated income statement for assets held at the end of the reporting period recorded in:			
– Gains from dealing in foreign currencies	**55**	**16**	**71**
Total gains/(losses) recognised in other comprehensive income	**3,178**	**(5,332)**	**(2,154)**

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

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

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

	Financial investments at fair value through other comprehensive income		
Assets	Other debt securities *HK$'000*	Equity securities *HK$'000*	Total *HK$'000*
At 1 January 2022	4,000	78,869	82,869
Transfer from Level 1	7,782	–	7,782
Gains/(losses) recognised in the consolidated income statement	1	(30)	(29)
Gains recognised in other comprehensive income	3,937	40,590	44,527
At 31 December 2022	15,720	119,429	135,149
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	1	(30)	(29)
Total gains recognised in other comprehensive income	3,937	40,590	44,527

(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 as at 30 June 2023 and 31 December 2022 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 held under resale agreements; derivative financial instruments and financial investments at fair value through profit or loss, at fair value through other comprehensive income and at amortised cost.

The fair values of balances with banks and central bank; placements with and advances to banks and financial assets held under resale agreements at amortised costs 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. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

(33) 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 as at 30 June 2023 and 31 December 2022, except the following:

	At 30 June 2023				
	Carrying amount *HK$'000*	**Fair value** *HK$'000*	**Level 1** *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*
Financial liabilities					
Loan capital	**3,911,646**	**3,877,808**	**3,877,808**	**–**	**–**

	At 31 December 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	3,890,992	3,849,903	3,849,903	–	–

(34) 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 2023							
	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	11,750,958	11,113,171	–	–	–	–	–	637,787
Placements with and advances to banks	62,814,310	–	42,495,301	6,297,631	14,021,378	–	–	–
Financial assets held under resale agreements	8,145,218	–	7,468,847	676,371	–	–	–	–
Derivative financial instruments	29,571,577	–	2,977,153	6,525,875	7,708,262	9,999,785	2,360,502	–
Financial investments								
– at fair value through profit or loss	840,457	–	10,839	9,347	79,084	408,561	332,626	–
– at fair value through other comprehensive income	90,018,657	–	5,845,154	9,343,721	31,277,564	43,313,000	132,178	107,040
– at amortised cost	48,268	–	–	48,268	–	–	–	–
Loans and advances to customers and other accounts	262,474,656	2,050,403	28,715,453	33,964,814	85,601,298	63,698,119	35,442,769	13,001,800
Property and equipment	958,136	–	–	–	–	–	–	958,136
Right-of-use assets	808,668	–	–	–	–	–	–	808,668
Intangible assets	411,297	–	–	–	–	–	–	411,297
Tax recoverable	11,268	–	–	–	11,268	–	–	–
Deferred tax assets	381,289	–	–	–	–	–	–	381,289
Total assets	468,234,759	13,163,574	87,512,747	56,866,027	138,698,854	117,419,465	38,268,075	16,306,017
Liabilities								
Deposits and balances of banks and other financial institutions	13,435,003	1,505,877	9,907,309	2,021,817	–	–	–	–
Deposits from customers	323,974,829	83,738,345	60,963,561	113,032,983	63,789,361	2,450,579	–	–
Financial liabilities at fair value through profit or loss	190,225	–	–	–	1,657	93,664	94,904	–
Financial assets sold under resale agreements	16,851,237	–	14,573,535	2,277,702	–	–	–	–
Derivative financial instruments	28,927,670	–	3,034,522	7,124,108	6,809,521	9,546,999	2,412,520	–
Certificates of deposit issued	1,810,266	–	560,890	779,315	470,061	–	–	–
Current taxation liabilities	171,690	–	–	–	171,690	–	–	–
Deferred tax liabilities	1,960	–	–	–	–	–	–	1,960
Other liabilities	21,837,025	1,548,243	10,961,168	3,889,044	3,345,476	406,362	–	1,686,732
Lease liabilities	869,889	–	16,005	32,171	90,742	369,650	361,321	–
Loan capital	3,911,646	–	–	–	–	3,911,646	–	–
Total liabilities	411,981,440	86,792,465	100,016,990	129,157,140	74,678,508	16,778,900	2,868,745	1,688,692
Asset-liability gap		(73,628,891)	(12,504,243)	(72,291,113)	64,020,346	100,640,565	35,399,330	

(34) MATURITY PROFILE (CONTINUED)

	At 31 December 2022							
	Total	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated (note)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets								
Cash and balances with banks and central banks	19,028,255	18,413,222	–	–	–	–	–	615,033
Placements with and advances to banks	33,839,668	–	18,724,816	387,469	14,727,383	–	–	–
Financial assets held under resale agreements	2,746,540	–	2,382,325	364,215	–	–	–	–
Derivative financial instruments	23,927,566	–	2,699,674	3,412,166	5,049,370	10,322,030	2,444,326	–
Financial investments								
– at fair value through profit or loss	791,802	–	295,206	–	229,057	190,632	76,907	–
– at fair value through other comprehensive income	112,894,375	–	38,910,306	21,706,823	16,746,622	35,376,690	22,785	131,149
– at amortised cost	57,739	–	9,698	48,041	–	–	–	–
Loans and advances to customers and other accounts	255,793,387	4,163,641	25,759,218	20,811,699	86,845,812	72,439,217	33,916,795	11,857,005
Property and equipment	818,400	–	–	–	–	–	–	818,400
Right-of-use assets	866,853	–	–	–	–	–	–	866,853
Intangible assets	453,944	–	–	–	–	–	–	453,944
Tax recoverable	14,756	–	–	–	14,756	–	–	–
Deferred tax assets	417,649	–	–	–	–	–	–	417,649
Total assets	451,650,934	22,576,863	88,781,243	46,730,413	123,613,000	118,328,569	36,460,813	15,160,033
Liabilities								
Deposits and balances of banks and other financial institutions	9,239,533	953,138	7,023,419	815,501	447,475	–	–	–
Deposits from customers	340,487,879	94,374,833	71,054,687	88,944,430	84,149,793	1,964,136	–	–
Financial liabilities at fair value through profit or loss	249,001	–	5,065	–	15,256	141,055	87,625	–
Financial assets sold under resale agreements	3,318,294	–	163,068	3,155,226	–	–	–	–
Derivative financial instruments	23,355,908	–	2,541,721	3,395,009	4,921,486	9,984,385	2,513,307	–
Certificates of deposit issued	1,169,709	–	467,884	–	701,825	–	–	–
Current taxation liabilities	250,467	–	–	–	250,467	–	–	–
Deferred tax liabilities	1,764	–	–	–	–	–	–	1,764
Other liabilities	14,086,097	423,106	7,457,881	535,404	3,035,164	536,283	–	2,098,259
Lease liabilities	907,139	–	23,787	45,851	123,151	337,372	376,978	–
Loan capital	3,890,992	–	–	–	–	3,890,992	–	–
Total liabilities	396,956,783	95,751,077	88,737,512	96,891,421	93,644,617	16,854,223	2,977,910	2,100,023
Asset-liability gap		(73,174,214)	43,731	(50,161,008)	29,968,383	101,474,346	33,482,903	

Note:

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

(35) CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

(a) Contingent liabilities and commitments to extend credit

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

	At 30 June 2023 *HK$'000*	At 31 December 2022 *HK$'000*
Direct credit substitutes	**406,694**	897,471
Transaction-related contingencies	**997,920**	869,517
Trade-related contingencies	**6,754,945**	5,610,019
Forward forward deposits placed	**775,125**	37,977
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**118,206,097**	109,189,888
– with an original maturity of not more than 1 year	**2,856,730**	3,952,746
– with an original maturity of more than 1 year	**9,283,290**	12,822,564
	139,280,801	133,380,182
Credit risk-weighted amounts	**7,303,581**	9,496,598

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 2022: 0% to 150%).

(b) Capital commitments

Capital commitments represent commitments authorized and contracted for projects, the purchase of equipment and lease commitments outstanding as at 30 June 2023 and 31 December 2022 not provided for in the financial statements are as follows:

	At 30 June 2023 *HK$'000*	At 31 December 2022 *HK$'000*
Authorised and contracted for	**400,364**	180,989

(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 2023 and 31 December 2022.

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.

(A) SUMMARY OF FINANCIAL POSITION

At period-ended / year-ended	**At 30 June 2023** *HK$'000*	At 31 December 2022 *HK$'000*
Loans and advances to customers	**247,520,003**	246,798,115
Expected credit losses on loans and advances to customers	**1,410,867**	1,377,634
Total assets	**468,234,759**	451,650,934
Total customers deposits (including certificates of deposit issued)	**325,785,095**	341,657,588
Total equity	**56,253,319**	54,694,151
Financial ratios		
Common Equity Tier 1 ("CET1") capital ratio	**11.9%**	12.0%
Tier 1 capital ratio	**16.0%**	16.2%
Total capital ratio	**18.3%**	18.6%
Loans to deposits	**76.0%**	72.2%
Loans to total assets	**52.9%**	54.6%
Cost to income (for the half-year ended)	**42.2%**	47.8%

(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 the Bank's corporate website www.cncbinternational.com. The Bank's Regulatory Disclosure Statement, together with the disclosures in the interim report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(C) CAPITAL ADEQUACY

(i) Capital base

Capital adequacy ratios ("CARs") are complied in accordance with the Banking (Capital) Rules issued by the HKMA. The CARs 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 2023 *HK$'000*	At 31 December 2022 *HK$'000*
Common Equity Tier 1 ("CET1") capital instruments and reserves		
Directly issued qualifying CET1 capital instruments plus any related share premium	**18,058,853**	18,058,853
Retained earnings	**25,291,936**	23,823,093
Disclosed reserves	**(536,555)**	(627,239)
CET1 capital before regulatory deductions	**42,814,234**	41,254,707
CET1 capital: regulatory deductions		
Deferred tax assets in excess of deferred tax liabilities	**381,289**	417,649
Other intangible assets (net of related deferred tax liability)	**411,297**	453,944
Cumulative fair value gains arising from the revaluation of land and buildings (own use and investment properties)	**298,785**	293,087
Regulatory reserve for general banking risks	**2,478,586**	2,326,333
Valuation adjustments	**55,647**	38,641
Debit valuation adjustments in respect of derivative contracts	**3,772**	5,362
Total regulatory deductions to CET1 capital	**3,629,376**	3,535,016
CET1 capital	**39,184,858**	37,719,691
Additional Tier 1 ("AT1") capital		
AT1 capital	**13,243,907**	13,243,907
Tier 1 capital	**52,428,765**	50,963,598
Tier 2 capital instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	**3,917,175**	3,899,031
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	**134,453**	131,889
Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**3,617,560**	3,523,657
Tier 2 capital base before deductions	**7,669,188**	7,554,577
Tier 2 capital: regulatory deductions		
Regulatory deductions to Tier 2 capital	**–**	–
Tier 2 capital	**7,669,188**	7,554,577
Total capital	**60,097,953**	58,518,175

(ii) Risk-weighted assets

– Credit risk	**294,820,228**	283,157,088
– Market risk	**18,064,963**	15,966,100
– Operational risk	**15,610,113**	15,001,688
	328,495,304	314,124,876

(C) CAPITAL ADEQUACY (CONTINUED)

(iii) Capital adequacy ratios

	At 30 June 2023	At 31 December 2022
– CET1 capital ratio	**11.9%**	12.0%
– Tier 1 capital ratio	**16.0%**	16.2%
– Total capital ratio	**18.3%**	18.6%

(iv) Capital instruments

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

	At 30 June 2023 ***HK$'000***	At 31 December 2022 *HK$'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 2023 ***HK$'000***	At 31 December 2022 *HK$'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**	4,687,907
	13,242,724	13,242,724

	At 30 June 2023 ***HK$'000***	At 31 December 2022 *HK$'000*
Tier 2 capital instruments		
Issued by the Bank		
– US$500 million Subordinated Fixed Rate Notes at 4.625% (due in 2029)	**3,911,646**	3,890,992

(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 2023	
Names of subsidiaries	**Principal activities**	**Total assets** ***HK$'000***	**Total equity** ***HK$'000***
Carford International Limited	Property holding	**26,429**	**14,682**
CITIC Bank International (China) Limited	Banking	**19,628,000**	**1,593,153**
CITIC Insurance Brokers Limited	Insurance broker	**350,952**	**332,124**
HKCB Finance Limited	Consumer financing	**6,092,504**	**278,180**
The Ka Wah Bank (Trustee) Limited	Trustee services	**3,010**	**2,080**

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 2023	
Names of subsidiaries	**Principal activities**	**Total assets** ***HK$'000***	**Total equity** ***HK$'000***
The Hongkong Chinese Bank (Nominees) Limited	Nominee services	**–**	**4**
The Ka Wah Bank (Nominees) Limited	Nominee services	**114**	**–**
Security Nominees Limited	Nominee services	**–**	**–**
CNCBI Investment Holdings Limited	Ceased business during the period	**365,610**	**365,622**
CNCBI Asset Management Limited	Ceased business during the period	**11,331**	**9,577**
CNCBI Financial Consultant Limited	Not yet commenced business	**228**	**34**
Prosperous Century Global Investment Fund SPC	Ceased business during the period	**–**	**–**

For all subsidiaries included in both the accounting and regulatory scope of consolidation, the same consolidation methodology is applied at 30 June 2023 and 31 December 2022.

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 2023					
	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	**172,296,326**	**3,238,474**	**3,897,654**	**335,191**	**244,057**	**247,156**
Mainland China	**42,089,842**	**611,923**	**650,952**	**156,503**	**45,171**	**1,577**
United States	**12,424,805**	**–**	**439,005**	**43,274**	**–**	**122,594**
Singapore	**7,467,090**	**251,116**	**251,116**	**68,608**	**24,980**	**26,179**
Others	**13,241,940**	**51,613**	**60,309**	**43,281**	**38,603**	**13,693**
	247,520,003	**4,153,126**	**5,299,036**	**646,857**	**352,811**	**411,199**

	At 31 December 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	173,079,464	2,618,209	3,399,730	417,432	311,552	177,206
Mainland China	40,471,020	761,442	761,442	162,778	40,774	75,366
United States	12,060,909	–	–	29,921	–	–
Singapore	7,810,685	–	–	58,922	5,869	–
Others	13,376,037	5,793	5,793	33,002	64,812	–
	246,798,115	3,385,444	4,166,965	702,055	423,007	252,572

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 2023		At 31 December 2022	
	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	**897,962**	**0.36**	1,363,091	0.55
– 1 year or less but over 6 months	**1,822,619**	**0.74**	862,803	0.35
– over 1 year	**1,432,545**	**0.58**	1,159,550	0.47
	4,153,126	**1.68**	3,385,444	1.37
Secured overdue loans and advances	**2,493,328**		2,309,299	
Unsecured overdue loans and advances	**1,659,798**		1,076,145	
	4,153,126		3,385,444	
Market value of collateral held against the secured overdue loans and advances	**4,207,642**		4,923,948	
Expected credit losses allowances	**220,425**		241,784	

Loans and advances with a specific repayment dates 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, which is 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 is readily determinable or can be reasonably established and verified.

(b) The asset is marketable and there exists a readily available secondary market for disposal 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 and trade bills which were overdue for over three months at 30 June 2023 and 31 December 2022.

Other overdue assets

There was financial investments at fair value through other comprehensive income amounted HK$40,407,000, which were overdue for over three months as at 30 June 2023 (31 December 2022: HK$11,720,000).

(F) RESCHEDULED LOANS

	At 30 June 2023		At 31 December 2022	
	HK$'000	**% of total loans and advances to customers**	*HK$'000*	% of total loans and advances to customers
Rescheduled loans	**249,735**	**0.101**	149,986	0.061

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 2023 and 31 December 2022 respectively.

(G) REPOSSESSED ASSETS

	At 30 June 2023 ***HK$'000***	At 31 December 2022 *HK$'000*
Included in loans and advances to customers and other accounts	**259,267**	149,251

The amounts represent the estimated market value of the repossessed assets at 30 June 2023 and 31 December 2022 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 disclosed as follows:

	At 30 June 2023				
			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	**49,496,260**	**14,689,844**	**2,293,566**	**4,561,687**	**71,041,357**
Offshore centres	**13,838,781**	**422,655**	**23,746,692**	**48,044,625**	**86,052,753**
of which Hong Kong	**3,428,614**	**421,952**	**21,525,916**	**37,183,836**	**62,560,318**
Developing Asia-Pacific	**41,072,749**	**1,339,432**	**6,785,032**	**36,193,960**	**85,391,173**
of which Mainland China	**36,773,054**	**1,338,714**	**5,947,403**	**32,094,888**	**76,154,059**

	At 31 December 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	29,927,871	24,545,966	2,304,833	4,303,637	61,082,307
Offshore centres	10,675,665	86,591	23,331,069	56,880,197	90,973,522
of which Hong Kong	3,830,542	86,086	20,009,710	45,844,064	69,770,402
Developing Asia-Pacific	27,481,203	4,496,093	5,483,951	36,513,112	73,974,359
of which Mainland China	23,329,112	4,495,505	5,458,420	32,844,370	66,127,407

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 2023		
		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)	**38,305,355**	**1,701,140**	**40,006,495**
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	**18,506,922**	**1,346,498**	**19,853,420**
(3)	PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**37,621,282**	**4,101,859**	**41,723,141**
(4)	Other entities of central government not reported in item 1 above	**5,226,038**	**699,111**	**5,925,149**
(5)	Other entities of local governments not reported in item 2 above	**1,330,834**	**–**	**1,330,834**
(6)	PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**31,340,322**	**1,235,014**	**32,575,336**
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**6,530,365**	**619,480**	**7,149,845**
Total		**138,861,118**	**9,703,102**	**148,564,220**
Total assets after provision		**442,029,187**		
On-balance sheet exposures as percentage of total assets		**31.4%**		

		At 31 December 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)	39,988,887	3,334,745	43,323,632
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	15,963,526	1,648,227	17,611,753
(3)	PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	42,109,952	4,030,950	46,140,902
(4)	Other entities of central government not reported in item 1 above	5,202,575	1,183,666	6,386,241
(5)	Other entities of local governments not reported in item 2 above	2,141,272	–	2,141,272
(6)	PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	33,865,994	1,995,551	35,861,545
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	6,623,779	123,818	6,747,597
Total		145,895,985	12,316,957	158,212,942
Total assets after provision		423,372,148		
On-balance sheet exposures as percentage of total assets		34.5%		

(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 and guarantees. The Group has developed standards, policies and procedures to measure, monitor and mitigate the risk of its lending business activities. 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 half year of 2023, the Group continues to enhance its risk management framework and internal control practices by solidifying its three lines of defense, 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, promoting the risk culture of green and sustainable banking, and embedding climate risk into the risk management framework.

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:

Obligor Grade	Reference ECAI Rating			Rating Description
	Moody's	S&P	Fitch	
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 2023 *HK$'000*	At 31 December 2022 *HK$'000*
Cash and balances with banks and central banks	**11,530,577**	18,629,811
Placements with and advances to banks	**62,814,310**	33,839,668
Financial assets held under resale agreements	**8,145,218**	2,746,540
Derivative financial instruments	**29,571,577**	23,927,566
Financial investments		
– at fair value through profit or loss	**840,457**	791,802
– at fair value through other comprehensive income	**89,948,984**	112,774,946
– at amortised cost	**48,268**	57,739
Loans and advances to customers and other accounts	**261,924,108**	255,293,725
Financial guarantees and other credit-related contingent liabilities	**8,934,684**	7,414,984
Loan commitments and other credit-related commitments	**130,346,117**	125,965,198
	604,104,300	581,441,979

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

(iii) Master netting arrangement

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

	At 30 June 2023			
	Derivative financial instruments presented in the consolidated statement of financial position *HK$'000*	**Related amounts that are not offset in the consolidated statement of financial position**		**Net amount** *HK$'000*
		Financial instruments *HK$'000*	**Cash collateral received** *HK$'000*	
Financial assets				
– Derivative financial instruments	**29,571,577**	**(9,912,524)**	**(3,012,288)**	**16,646,765**
Financial liabilities				
– Derivative financial instruments	**28,927,670**	**(9,912,524)**	**–**	**19,015,146**

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(iii) Master netting arrangement (continued)

	At 31 December 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	23,927,566	(7,752,185)	(1,584,086)	14,591,295
Financial liabilities				
– Derivative financial instruments	23,355,908	(7,752,185)	–	15,603,723

(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 as at 30 June 2023 and 31 December 2022, excluding impaired exposure, is broken down as follows:

	At 30 June 2023	At 31 December 2022
	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	**102,386,108**	100,655,480
– past due but not impaired	**4,128,328**	4,865,543
	106,514,436	105,521,023

(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.

The management overlay was applied on top of modelled ECL in 2021 to cater for uncertainties arising from PRC real estate sector. As at 30 June 2023, the Group reassessed the amount of management overlay required by performing individual account review based on latest available information of each account.

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% (2022: 68%); the upside scenario, namely benign, represents likelihood of improvements to the current economic situation; carrying a weight of 10% (2022: 20%); 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% (2022: 5%, 5% and 2%) 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 characterized by moderate global growth over the forecast period of 2023-2027. The global economy is expected to take a step back with a slower growth pace in 2023, as a result of the economic slowdown among major developed economies including the US, the UK and the Euro-zone. The global economy is anticipated to gradually regain momentum in the subsequent years of the forecast period, given that the developed economies recover from the economic downturn.

Mainland China's economy is expected to recover and outperform the growth target of 5% in 2023, followed by moderating growth in the subsequent years of the forecast period. Mainland China's exports will continue to be under pressure and weigh on the economy in the near term amid weakening demand from developed economies. Meanwhile, domestic demand is projected to pick up at a faster pace supported by policy measures. Labour market conditions in Mainland China may gradually improve with the unemployment rate edging lower on the back of sustained economic expansion.

Hong Kong's economy is anticipated to stay on the recovery path with a strong rebound in 2023, and sustained expansions in the subsequent years of the forecast period. Similar to Mainland China, Hong Kong's export trade is likely to remain subdued due to the slowing global demand, but it should resume growth in the longer run. Meanwhile, local consumption becomes the growth driver of Hong Kong's economy in 2023 and should stay resilient moving forward. Labour market in Hong Kong will continue to be tight, and the unemployment rate is poised to decline further to the pre-pandemic level.

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 a 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 endures a considerable slowdown and is on the blink of a recession as major developed economies suffer a deep recession amid the aggressive monetary policy tightening, together with a notable setback in Mainland China's economic recovery. GDP growth turns negative for most of the advanced economies, while economic growth in Mainland China and Hong Kong declines considerably. Consequently, financial and commodity markets experience a significant selloff with heightened volatilities, while 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.

During the year, the Group has written off certain loans that have no reasonable expectation of full recovery. 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 2023						
	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 *(Note (iv))*							
– Stage 1	11,531,868	–	–	–	11,531,868	(1,291)	11,530,577
Placements with and advances to banks at amortised cost *(Note (iv))*							
– Stage 1	61,923,368	919,119	–	–	62,842,487	(28,177)	62,814,310
Financial assets held under resale agreements at amortised cost *(Note (iv))*							
– Stage 1	3,257,259	–	–	–	3,257,259	–	3,257,259
Loans and advances to customers and other accounts at amortised cost	165,942,935	75,874,783	11,158,760	5,957,675	258,934,153	(2,070,254)	256,863,899
– Stage 1	164,992,112	72,798,687	5,527,276	–	243,318,075	(647,605)	242,670,470
– Stage 2	950,823	3,076,096	5,631,484	–	9,658,403	(352,811)	9,305,592
– Stage 3	–	–	–	5,957,675	5,957,675	(1,069,838)	4,887,837
Financial investments at amortised cost *(Note (iv))*							
– Stage 1	48,271	–	–	–	48,271	(3)	48,268
Loan commitments and financial guarantee contracts *(Note (i))*	10,308,046	128,794,713	93,932	–	139,196,691	(109,086)	139,087,605
– Stage 1	10,308,046	128,794,713	–	–	139,102,759	(106,753)	138,996,006
– Stage 2	–	–	93,932	–	93,932	(2,333)	91,599
– Stage 3	–	–	–	–	–	–	–
Total	253,011,747	205,588,615	11,252,692	5,957,675	475,810,729	(2,208,811)	473,601,918
Financial investments at fair value through other comprehensive income – Debt securities *(Note (ii))*	89,780,498	128,079	–	40,407	89,948,984	(221,642)	
– Stage 1	89,780,498	128,079	–	–	89,908,577	(21,665)	
– Stage 2	–	–	–	–	–	–	
– Stage 3	–	–	–	40,407	40,407	(199,977)	
Total	89,780,498	128,079	–	40,407	89,948,984	(221,642)	

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vii) Credit quality of financial assets (continued)

	At 31 December 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 *(Note (iv))*							
– Stage 1	18,631,639	–	–	–	18,631,639	(1,828)	18,629,811
Placements with and advances to banks at amortised cost *(Note (iv))*							
– Stage 1	33,308,161	553,495	–	–	33,861,656	(21,988)	33,839,668
Financial assets held under resale agreements at amortised cost *(Note (iv))*							
– Stage 1	2,746,540	–	–	–	2,746,540	–	2,746,540
Loans and advances to customers and other accounts at amortised cost	157,687,152	80,675,162	10,374,385	4,660,605	253,397,304	(1,871,742)	251,525,562
– Stage 1	156,775,839	77,768,709	4,386,940	–	238,931,488	(702,523)	238,228,965
– Stage 2	911,313	2,906,453	5,987,445	–	9,805,211	(423,007)	9,382,204
– Stage 3	–	–	–	4,660,605	4,660,605	(746,212)	3,914,393
Financial investments at amortised cost *(Note (iv))*							
– Stage 1	57,742	–	–	–	57,742	(3)	57,739
Loan commitments and financial guarantee contracts *(Note (i))*	12,004,381	122,036,002	57,231	–	134,097,614	(126,090)	133,971,524
– Stage 1	12,004,381	122,036,002	–	–	134,040,383	(124,031)	133,916,352
– Stage 2	–	–	57,231	–	57,231	(2,059)	55,172
– Stage 3	–	–	–	–	–	–	–
Total	224,435,615	203,264,659	10,431,616	4,660,605	442,792,495	(2,021,651)	440,770,844
Financial investments at fair value through other comprehensive income – Debt securities *(Note (ii))*	112,600,546	144,709	–	29,691	112,774,946	(219,399)	
– Stage 1	112,600,546	144,709	–	–	112,745,255	(16,244)	
– Stage 2	–	–	–	–	–	–	
– Stage 3	–	–	–	29,691	29,691	(203,155)	
Total	112,600,546	144,709	–	29,691	112,774,946	(219,399)	

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vii) Credit quality of financial assets (continued)

Note:

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

(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

(iv) There are no exposures in stage 2 & stage 3 as at 30 June 2023 and 31 December 2022.

(viii) Credit quality of financial investments at debt securities

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 2023			
	Debt securities measured at FVPL *HK$'000*	Debt securities measured at FVOCI *HK$'000*	Debt securities measured at amortised cost *HK$'000*	Total *HK$'000*
Aaa	**117,018**	**14,022,507**	**–**	**14,139,525**
Aa3 to Aa1	**89,814**	**33,258,964**	**48,268**	**33,397,046**
A3 to A1	**223,779**	**37,651,315**	**–**	**37,875,094**
Lower than A3	**301,554**	**4,669,822**	**–**	**4,971,376**
	732,165	**89,602,608**	**48,268**	**90,383,041**
Unrated	**108,292**	**346,376**	**–**	**454,668**
Total	**840,457**	**89,948,984**	**48,268**	**90,837,709**

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(viii) Credit quality of financial investments at debt securities (continued)

	At 31 December 2022			
	Debt securities measured at FVPL *HK$'000*	Debt securities measured at FVOI *HK$'000*	Debt securities measured at amortised cost *HK$'000*	Total *HK$'000*
Aaa	98,446	15,025,851	–	15,124,297
Aa3 to Aa1	454,497	54,775,639	57,739	55,287,875
A3 to A1	117,939	37,602,592	–	37,720,531
Lower than A3	111,229	5,050,611	–	5,161,840
	782,111	112,454,693	57,739	113,294,543
Unrated	9,691	320,253	–	329,944
Total	791,802	112,774,946	57,739	113,624,487

(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, MRC and CRMC.

(J) RISK MANAGEMENT (CONTINUED)

(b) Market risk management (continued)

Methodology and characteristics of market risk model

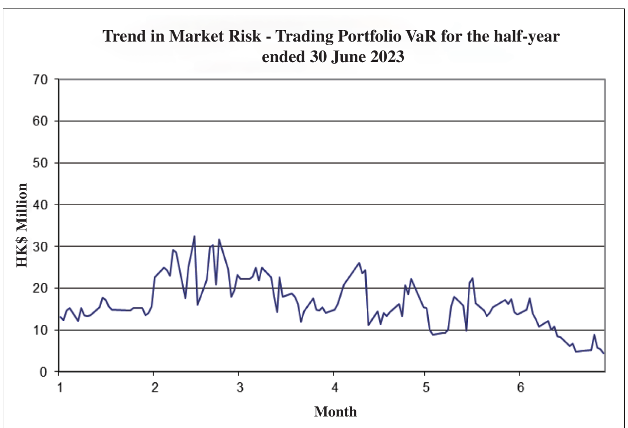
Value-at-risk (“VaR”)

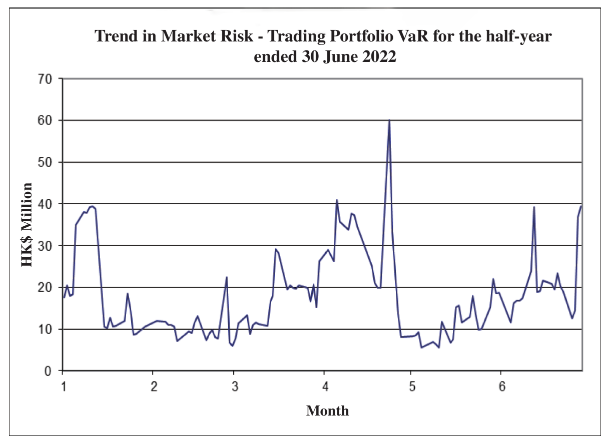
VaR is a technique in estimating the potential losses that could occur on market risk-taking positions due to market rates and prices movement under normal market conditions over a specified time horizon. The model is designed to capture different types of risk including interest rate risk, foreign exchange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

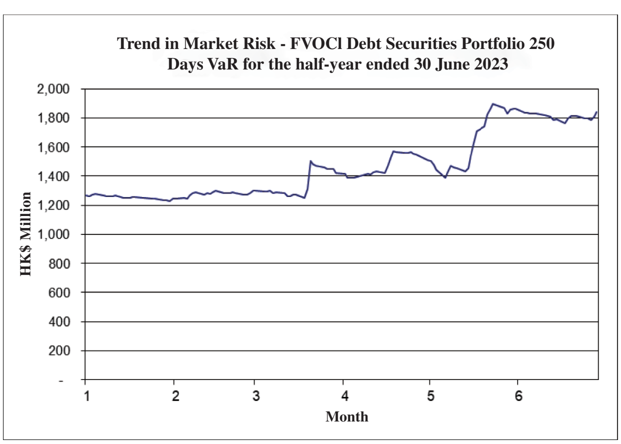
For the calculation of VaR, the Group uses the most recent two years of historical market rates, prices and volatilities.

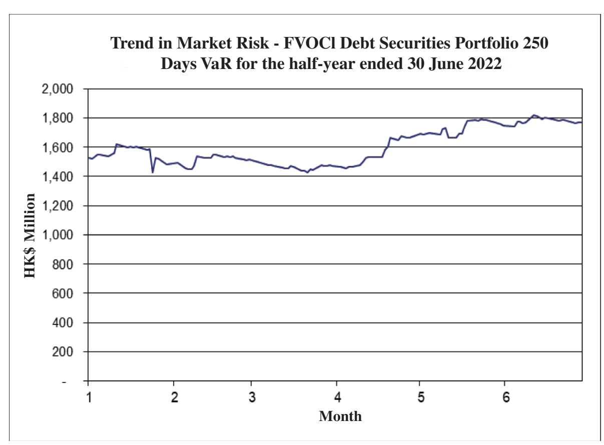
– For the trading positions, the VaR is calculated for one-day holding period.





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





(J) RISK MANAGEMENT (CONTINUED)

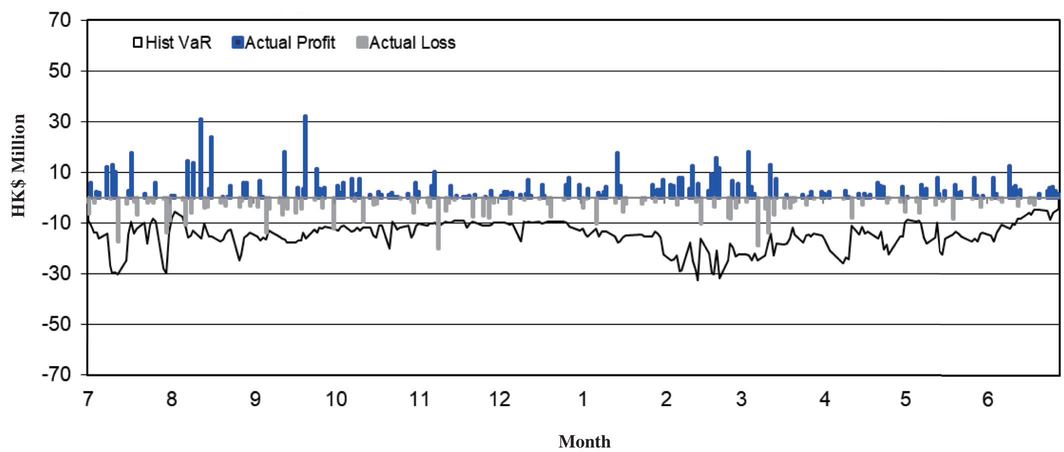
(b) Market risk management (continued)

Methodology and characteristics of market risk model (continued)

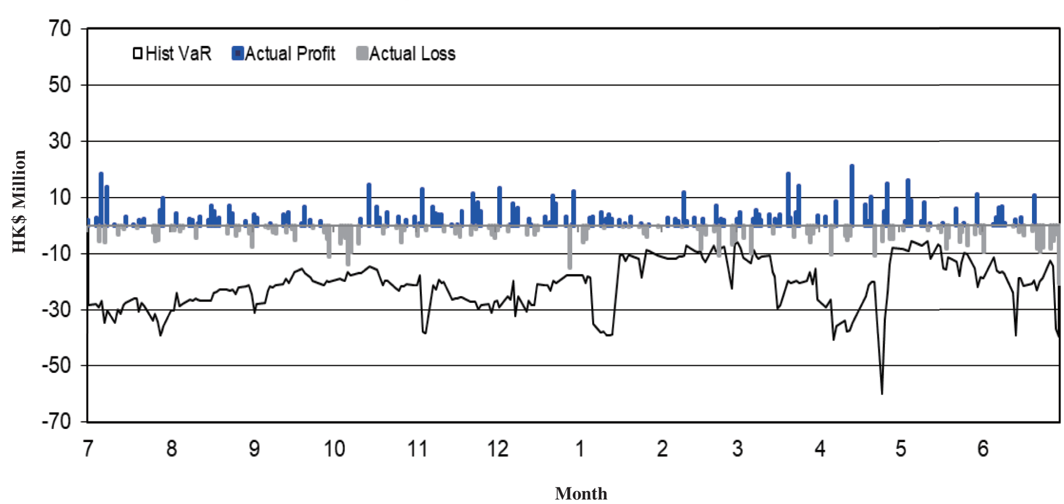
Value-at-risk (“VaR”) (continued)

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 2022 to 30 June 2023, there were 2 exceptions in the back-testing results (for the period of 1 July 2021 to 30 June 2022, there was 1 exception), which corresponds to the green zone specified by the HKMA and the international Basel principles.

The Group’s actual profit and loss backtesting model in July 2022 - June 2023



The Group’s actual profit and loss backtesting model in July 2021 - June 2022



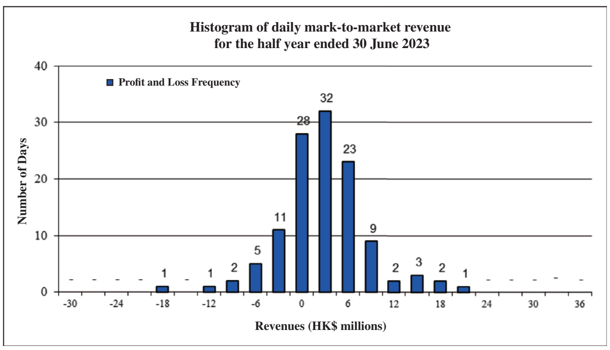
(J) RISK MANAGEMENT (CONTINUED)

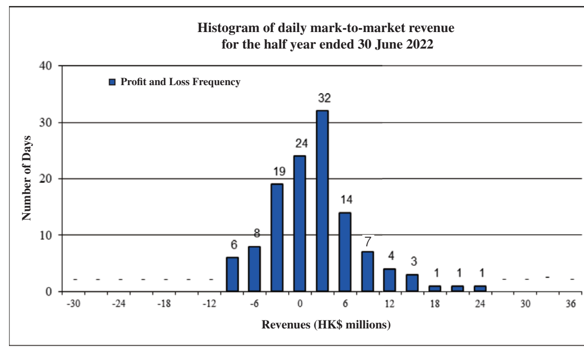
(b) Market risk management (continued)

Methodology and characteristics of market risk model (continued)

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

For the six months ended 30 June 2023, the average daily mark-to-market revenue from the Group's trading portfolio was a gain of HK$1,255,000 (30 June 2022: gain of HK$526,000). The standard deviation of the daily revenue was HK$5,670,000 (30 June 2022: HK$6,034,000). The graphs below show the histograms of the Group's daily mark-to-market revenue for the period ended 30 June 2023 and 2022, 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 2023				Six months ended 30 June 2022			
	Approximate				Approximate			
	maximum	**minimum**	**mean**	**At 30 June 2023**	maximum	minimum	mean	At 30 June 2022
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Foreign exchange risk	**26,116**	**2,610**	**9,376**	**3,354**	17,155	362	4,639	2,188
Interest rate risk and credit spread risk	**18,988**	**4,113**	**10,783**	**5,356**	60,303	4,980	17,580	38,396
Total VaR	**32,433**	**4,486**	**16,444**	**4,486**	60,071	5,577	18,023	39,488

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

	Six months ended 30 June 2023				Six months ended 30 June 2022			
	Approximate				Approximate			
	maximum	**minimum**	**mean**	**At 30 June 2023**	maximum	minimum	mean	At 30 June 2022
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest rate risk	**2,711,948**	**1,379,795**	**1,927,695**	**2,663,876**	1,665,212	618,268	1,160,427	1,605,323
Credit spread risk	**1,681,641**	**763,685**	**1,189,555**	**1,663,820**	1,605,241	750,425	1,280,731	754,927
Total 250-day VaR	**1,895,950**	**1,230,093**	**1,467,906**	**1,840,015**	1,820,163	1,424,703	1,602,190	1,767,728

Stress testing

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

(J) RISK MANAGEMENT (CONTINUED)

(b) Market risk management (continued)

Currency risk

The Group's foreign exchange risk stems from taking foreign exchange positions from commercial dealings, investments in foreign currency securities, and operations of the Group and its overseas branches and subsidiaries. The Group's foreign exchange positions are subject to exposure limits approved by the MRC. Methods adopted to measure foreign currency risk exposure against corresponding limits include individual currency positions, overall foreign exchange positions and sensitivities such as Greeks (for foreign exchange options). For the period ended 30 June 2023, the Group's average daily trading profit and loss from foreign exchange positions was a loss of HK$356,000 (six months ended 30 June 2022: a profit of HK$265,000) with a standard deviation of HK$14,881,000 (six months ended 30 June 2022: HK$12,131,000).

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

	At 30 June 2023				At 31 December 2022			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**	USD	RMB	Others	Total
Spot assets	**179,067,274**	**38,555,983**	**26,554,757**	**244,178,014**	190,664,917	27,691,136	29,613,849	247,969,902
Spot liabilities	**(176,131,594)**	**(38,850,981)**	**(15,122,193)**	**(230,104,768)**	(152,381,891)	(33,160,325)	(12,817,827)	(198,360,043)
Forward purchases	**586,441,013**	**306,329,558**	**57,777,839**	**950,548,410**	486,344,635	311,452,359	43,455,934	841,252,928
Forward sales	**(577,514,963)**	**(313,693,820)**	**(68,548,419)**	**(959,757,202)**	(521,304,735)	(306,190,843)	(59,970,233)	(887,465,811)
Net options position	**(8,426,396)**	**8,028,287**	**(237,824)**	**(635,933)**	258,124	388,282	(505,029)	141,377
Net long/(short) position	**3,435,334**	**369,027**	**424,160**	**4,228,521**	3,581,050	180,609	(223,306)	3,538,353
Net structural position	**–**	**645,440**	**48,451**	**693,891**	–	671,212	48,519	719,731

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 arising 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 2023, the Group's average daily trading profit and loss related to interest rate and fixed income trading strategy was a gain of HK$1,611,000 (30 June 2022: a gain of HK$260,000), with a standard deviation of HK$16,690,000 (30 June 2022: HK$13,397,000).

(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 Internal Audit Group 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 2023, 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 2023 was mainly driven by the decrease in the size of HQLA holdings.

(J) RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk management (continued)

	Weighted amount (average value)				
	For quarter ended 30 June 2023	**For quarter ended 31 March 2023**	For quarter ended 31 December 2022	For quarter ended 30 September 2022	For quarter ended 30 June 2022
Average LCR	**186%**	**188%**	209%	187%	224%

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

	Weighted amount (average value)				
	For quarter ended 30 June 2023 ***HK$'000***	**For quarter ended 31 March 2023** ***HK$'000***	For quarter ended 31 December 2022 *HK$'000*	For quarter ended 30 September 2022 *HK$'000*	For quarter ended 30 June 2022 *HK$'000*
Level 1 assets	**50,790,765**	**54,189,379**	67,573,730	52,598,041	55,032,966
Level 2 assets	**12,610,309**	**11,504,146**	12,146,617	13,139,323	14,248,638
Total	**63,401,074**	**65,693,525**	79,720,347	65,737,364	69,281,604

The Group also maintains sufficient available stable funding in support of its longer-term assets to meet the statutory NSFR requirements. The decrease in the NSFR in the first half of 2023 was mainly driven by the non-HQLA debt securities held and loans to financial institutions, partly offset by the decreases in the loans to retail and wholesale customers. There is no interdependent asset and liability as defined in the Banking (Liquidity) Rules in the Group.

	Quarter ended 30 June 2023	**Quarter ended 31 March 2023**	Quarter ended 31 December 2022	Quarter ended 30 September 2022	Quarter ended 30 June 2022
NSFR	**136%**	**132%**	137%	125%	127%

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 the 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 2023, 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 4 May 2023, 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 (including the Basel III reform which is scheduled to be implemented by the HKMA no earlier than 1 July 2024). 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 2023 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 2023 and year ended 31 December 2022, and the Group's capital ratios are well above the minimum required ratios set by the HKMA.

(J) RISK MANAGEMENT (CONTINUED)

(e) 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.

(f) 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)

(f) 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 facilitate the calculation of the up-coming Basel III operational risk capital and 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 risk is required for all new joiners and an annual refresher training on ORGF is compulsory for all staff. Training workshops led by the ORM 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)

(g) 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 2023, 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.

(h) 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.

REPORT OF THE CHIEF EXECUTIVE OFFICER

China CITIC Bank (International) Limited ("CNCBI" or "the Bank") and its subsidiaries (together "the Group") actively pursued business opportunities and promoted the implementation of the 4C strategies (Culture, Customers, Collaboration, Cyberspace) in the first half of 2023, amid the reopening of the border between Mainland China and Hong Kong, and the gradual normalisation of economic activities in Hong Kong. To achieve steady business growth, the Group strengthened collaboration with the CITIC Group and parent bank China CITIC Bank Corporation Limited ("CNCB"), actively promoted competitive businesses, enriched the product mix, and pressed ahead with agile culture and Fintech transformation. Concurrently, the Group continued to strengthen asset quality control, compliance and internal control in order to promote stable business development in the face of macroeconomic uncertainties.

OPERATING ENVIRONMENT

In the first half of 2023, to contain inflation, the policy interest rates of major western central banks remained at high levels. Developed economies experienced slowing growth and some were even facing the risk of recession. Weakened global growth momentum also inevitably pressured international trade. The economy of Mainland China continued to expand. However, as the manufacturing sector was impacted by declining imports and exports, the economic recovery was somewhat uneven and largely reliant on the service industry.

Hong Kong's re-export trades were also impacted by weakening external demand, while strong private consumption and retail sales drove economic recovery. Meanwhile, the labour market remained resilient with declining unemployment. As for the interest rate environment, HKD interest rates continued to rise along with USD interest rates. In spite of a weakened global economy, the economic reopening and normalisation of activities provided strong support to the economies of Mainland China and Hong Kong.

FINANCIAL REVIEW

In the first half of 2023, the Group recorded profit attributable to shareholders of HK$1.82 billion, representing an increase of 37.8% as compared with the same period last year. Operating income recorded HK$4.78 billion, a 16.3% year-on-year increase. Net interest income rose by 21.1% year-on-year to HK$3.60 billion, and net interest margin also widened by 27 basis points versus the same period last year to 1.73%. Non-interest income increased by 3.7% to reach HK$1.17 billion.

Operating expenses increased by 2.5% year-on-year to HK$2.01 billion and cost-to-income ratio was 42.2%. The Group continued to strengthen cost control and optimise its resource allocation, while further enhancing the cost structure. The Group spearheaded efforts to promote agile culture transformation and implement process re-engineering, which continuously improved operational efficiency. At the same time, the Group pushed forward Fintech transformation and talent development, and kept deploying resources in strategic areas.

Impairment losses increased by 9.3% year-on-year to HK$0.72 billion. Impaired loan ratio was 2.14% as of end-June 2023. The Group continued to strengthen asset quality and further reinforce credit risk management while improving the quality of its loan portfolio.

The Group was prudent in granting new credit facilities, closely monitored and proactively adjusted its asset portfolio to further improve capital efficiency. As of end-June 2023, total assets of the Group amounted to HK$468.23 billion, representing a 3.7% growth as compared with that at the end of last year. Customer loans (including trade bills) amounted to HK$247.52 billion, similar to that as of the end of last year. Customer deposits (including certificates of deposit issued) decreased by 4.6% from the end of last year to HK$325.79 billion. Loan-to-deposit ratio remained at a healthy level of 76.0%.

The Group's total capital ratio, tier 1 capital ratio and common equity tier 1 capital ratio met regulatory requirements. At the same time, the Group maintained sufficient liquidity, average liquidity coverage ratio and net stable funding ratio to satisfy the regulatory requirements.

BUSINESS REVIEW

Wholesale Banking Business

In the first half of 2023, wholesale banking business customer loan balance amounted to HK$156.12 billion, up 0.8% as compared with the end of 2022. The total income achieved HK$2.22 billion, representing year-on-year increases of 7.3%.

In terms of customer development, with the support of the interest rate hike and the transaction banking development strategy, the number of customers recorded substantial increases. During the reporting period, both the number of base customers and active customers showed double-digit growth and increased respectively to 2,883 and 2,496, with year-on-year increases of 40.8% and 41.2%.

As for core products, the Group gradually established a product system and channels for Transaction Banking, which further enhanced settlement service capabilities and customer experience. In the first half of 2023, the Group completed the first Escrow and Special Settlement Account Service. At the same time, the corporate fund transfer service was upgraded to facilitate the customers' cash management needs. Amid the steady development of the green and sustainable finance sector, the green and sustainable finance related loan balance reached HK$8.15 billion, which represented a growth of 5.3% from HK$7.74 billion as of the end of 2022.

The principle of "One CITIC, One Customer" will continue to be implemented in the wholesale banking business, which shall generate new momentum through collaboration.

Treasury and Markets Business

Despite volatile financial markets impacted by multiple uncertainties during the first half of 2023, the Group's global markets achieved substantial growth with revenue of HK$0.29 billion.

For trading business, the Group continued to focus on a trading strategy centred around RMB, and enhanced its market making capability, which enabled the Group to maintain market competitiveness. According to Refinitiv, CNCBI ranked among the top three among all Chinese banks in Asia by RMB FX spot trading volume in the first half of 2023. The Group was one of the first offshore market markers for Northbound trading of Swap Connect and actively participated in Southbound trading of the Bond Connect scheme, with a 37.2% year-on-year increase in transaction volume.

For client business, the Group achieved all round development in corporate treasury business through diversifying the product mix, which registered an 87.7% year-on-year increase in income. The Group constructively explored business opportunities in repo. In the first half of 2023, the trading volume of repo was HK$4.27 billion, approximately 2.25 times the full year of 2022.

As of end-June, total asset size under custody management surpassed US$17.0 billion, with a year-on-year increase of 150%, which was at a record high.

For the debt capital markets business, despite the continuously shrinking new issue volume, the Group completed a total of 34 public deals in the first half of 2023. According to Bloomberg, the Group ranked No. 1 among Chinese banks in the offshore China USD bond league table (excluding self-led deals), and participated in the new issue of approximately 70% of investment-grade bonds. In addition, the Certificates of Deposit ("CDs") and Medium Term Note ("MTN") businesses have become a major source of revenue for the Group since 2022. In the first half of 2023, the Group's new issue volume of CDs at US$16.2 billion, increased by approximately 23 times year-on-year, and the new issue volume of MTN at US$1.7 billion, increased by approximately 4 times year-on-year.

Personal and Business Banking Business

During the first half of 2023, the Group's personal and business banking business regained business momentum, which benefited from border reopening and improved post-pandemic Hong Kong market sentiment. Total operating income recorded a growth of 14.8% year-on-year. Customer deposit balance increased by 4.3% from the end of last year. Non-interest income rose by 11.1% year-on-year as a result of a versatile range of wealth management products.

As an offshore wealth management platform for CNCB's high-net-worth customers, the Group gave full play to the advantages of the full-scale collaboration with the CITIC Group and CNCB, and provided comprehensive financial service solutions for high-net-worth customers and one-stop financial services such as salary banking for employees of CITIC Group companies based in Hong Kong.

For wealth management business, Private Banking business in Singapore and insurance services in Macau were commenced in the first quarter of this year, which added new channels to cater to high-net-worth customers' asset allocation demand across different regions. By providing competitive products such as trust, insurance and bonds and expanding the service capabilities, the high-net-worth segment recorded a 13.8% year-on-year increase in customer number. Accelerated development in Private Banking business recorded a significant increase in annual revenue, primarily as a result of customer relationship enhancement through the provision of prestige lifestyle experiences, exclusive activities and customer privileges.

For digital banking services, the Group actively promoted the digital transformation of branches in order to optimise online and offline integrated banking services. At the same time, with the capabilities of the mobile banking flagship platform "inMotion" further stepping up, the "Reward GO! " campaign achieved remarkable results, which led to enhancements in customer loyalty, acquisition, and activation. Mobile banking customers increased by nearly 20% compared with the end of last year, and transactions increased by 95.3% year-on-year.

For promoting agile culture, operations were streamlined through process optimisation with the aim of driving operational efficiency. For sustainable development, to integrate green and sustainable finance development principles for the purpose of low-carbon and efficient operations, paperless operations were implemented, and dozens of ESG funds and bonds were introduced covering diverse sectors such as energy, agriculture, transportation, communications, nutrition science, etc. Additionally, a customised ESG Insurance product was launched for high-net-worth customers, allowing retail investors to capitalise on sustainable finance market trends.

To strengthen and enhance business performance, with good business momentum, continued investments will be made, and Fintech transformation and customer-centric strategy will be pushed forward in the personal and business banking business.

FINTECH TRANSFORMATION

In response to the "Fintech 2025" strategy of the Hong Kong Monetary Authority ("HKMA"), the Group actively promotes the transformation of Fintech to enhance the capabilities of banking services. Meanwhile, to achieve the best transformation outcomes, a priority strategy for project investment across the bank is adopted to realise continuous evaluation and management of resource allocation.

The Group's transformation of Fintech has produced remarkable outcomes, as the rate of digital consumer penetration, the number of monthly active users and the proportion of electronic transactions increased. In regard to the personal and business banking business, through the launch of remote account opening services for mainland residents, electronic account opening solutions for business customers, and online loan applications, the ability of customer acquisition via electronic channels has been enhanced. In regard to the wholesale banking business, with the successful launch of Corporate Online Banking (COB 2.0) in Hong Kong and Singapore, corporate customers have been fully migrated to the new generation of electronic channels and enjoyed a broader range of online financial products and services. In regard to treasury and markets business, the new mobile application "FX Go" allowed customers to obtain full-featured, real-time foreign exchange information and facilitated the opening of accounts for and trading of foreign exchange and gold investment, while offering more diverse products and services.

The Group employs Fintech to enhance its operation and risk control capabilities, including actively promoting the transformation of automated processes to improve operational efficiency, and using data governance to optimise applications in various scenarios, covering a variety of business and regulatory risk control. In addition, cloud applications are being explored, and low-code platforms are being launched in an effort to accelerate the overall Fintech transformation process.

RISK MANAGEMENT AND INTERNAL CONTROL

The Group emphasises the importance of sound risk governance and maintains robust risk management and internal control practices. To establish an efficient and comprehensive risk management system, the mechanism and capacity for risk early warning prevention and control, and disposal are strengthened. The Group continues to equip itself with risk management capabilities to ensure that it keeps abreast of new regulatory requirements and best practices. Various risk management enhancement projects and initiatives, including the implementation of the Basel III Reform Package, Climate Risk Management and Operational Resilience, are underway to keep pace with the evolving regulatory landscape and increasingly stringent regulatory requirements. On the credit risk front, the Group adheres to stringent credit policies, conducts in-depth credit assessments and post-lending monitoring, and proactively performs portfolio reviews and stress tests. The Group has assessed the potential impact of a stressed environment (such as global recession risk and continuous geopolitical tensions) on the Group's asset quality and financial positions, while appropriate risk mitigation measures are implemented as needed to reduce potential risks.

The Group places great emphasis on enhancing compliance education for employees, and strengthening standards of conduct and business practices in support of corruption prevention campaigns advocated by the HKMA and the Independent Commission Against Corruption. Meanwhile, the Group is continuing to explore the development and application of Regtech to enhance risk and compliance management capabilities and efficiency.

HUMAN RESOURCES DEVELOPMENT

The Group places a high priority on cultivating a positive bank culture and actively promotes agile culture transformation. "Agile Week" was held to share stories of upholding agile culture, while trends in Fintech and the latest applications were introduced. Through an annual recognition program, "The Best of CNCBI", outstanding employees were honoured for their exemplary behaviours in upholding the Group's Vision, Mission and Core Values. We value employee opinions and feedback. A two-way communication channel was established for employee feedback and employee opinions and suggestions were handled with due care, while optimisation plans were made along the course.

The Group actively invests in employee training and talent development. "Talent Development Award" was awarded by the Hong Kong Institute of Bankers for three consecutive years. To encourage employees' professional development, the Group provided full sponsorship to employees to obtain professional qualifications as defined by the HKMA's Enhanced Competency Framework and launched the "NCB Academy – Learning Month Challenge" to foster an environment conducive to independent online learning. Besides, the Group contributed to building a talent pipeline for Hong Kong's finance industry by actively joining "the Fintech Career Accelerator Scheme" and "the Greater Bay Area Youth Employment Scheme".

The Group is committed to caring for its employees. Various festive activities were held during the year to create a festive atmosphere and enhance employees' sense of belonging. To care for the physical and mental health of employees, refreshments and health talks were arranged. During the reporting period, the Wellness Program was also optimised to provide employees with more suitable wellness products and services.

ESG AND SUSTAINABLE GROWTH

The Group actively implements the national and Hong Kong Special Administrative Region governments' policy objectives, and responds to the HKMA's green and sustainable finance development guidance. Through the ESG Steering Committee, comprehensive coordination and systematic promotion of green and sustainable finance development governance systems and working mechanisms have been established under the direction of the Board and senior management. Sustainable finance development strategies are continuously researched and implemented, such as the rapid expansion of green loans, green bonds and wealth management, the completion of the first climate risk disclosure, the implementation of green business objectives, and participation in social charity activities. The Group continues updating its medium- and long-term development plans to assure positive contributions in the field of sustainable finance development to the environment, society, and governance.

The Group promotes eco-friendly business practices and encourages resource conservation. In March 2023, the Group completed the new office relocation. The new office received multiple certifications for meeting the highest sustainability standards. By implementing energy-efficient lighting, centralised waste management, and recycling, the new office consumed 40% less electricity than the previous office.

The Group actively fulfils its corporate social responsibilities and encourages its employees to contribute to society by organising activities such as "Books for Love" book donations, the Community Chest's "Skip Lunch Day 2023", "Green Low Carbon Day 2023", etc. The Group also volunteered in events organised by welfare organisations, including the distribution of gifts to underprivileged families and the elderly during the "Dragon Boat Festival and Father's Day".

OUTLOOK

Looking ahead, global economic momentum could weaken further, with some developed economies mired in recession. Global GDP growth for 2023 may come in at 2%, the slowest pace since 2020. In comparison, Mainland China's economy continues to expand, and GDP growth could reach 5.5%, overshooting the official target of 5%. As Hong Kong's domestic demand rebounds strongly, retail sales and private consumption will continue to improve, and unemployment will further decline. Hong Kong's GDP growth for 2023 could reach 4.5%. As for the interest rate environment, the Fed's rate-hike cycle is slowly approaching its end, limiting the further upside of HKD interest rates.

Amid the prospect of complex business challenges, the Group will actively pursue new business opportunities emanating from the Guangdong-Hong Kong-Macao Greater Bay Area, the RMB internationalisation strategy, and ESG development. To provide customers with global and integrated services and to enhance cross-border comprehensive financial service capabilities, comprehensive collaboration with the CITIC Group and CNCB will continue to be strengthened, with an emphasis on the role of the offshore core business platform, which will be fully integrated into the CITIC ecosystem in order to actively expand new markets, increase the profitability of core businesses and develop new products.

The Group will strengthen internal management and control in an effort to improve risk management capabilities and stabilise asset quality. To better meet customer needs and market shifts, as well as to continuously improve its own core competitiveness, banking business and operation development will be empowered with technology, and IT infrastructure and data application capabilities will be enhanced by strengthening technological innovation and promoting the Fintech transformation strategy.

To actualise low-capital and low-cost transformation, continued emphasis will be placed on cost reduction and efficiency improvement. Capital utilisation effectiveness will be enhanced by optimising assets, liabilities and income structure. The promotion of agile cultural transformation and process reengineering will continue in order to increase work productivity and automate operations. To encourage green and low-carbon operations and reduce carbon emissions from operations, green financial businesses will be developed, and green financial products and services will be enhanced.

As a member of Hong Kong's banking industry, the Group will continue to contribute to the city's prosperity and growth by leveraging its century-long establishment in Hong Kong and CITIC's collaboration advantages. Simultaneously, we keep our mission in mind, commit to creating greater value for our stakeholders, and reciprocate the affection and support we receive from all walks of life. Through the combined efforts of all employees, the strategic vision "Agile. Professional. Simple." will be realised.

Bi Mingqiang
Executive Director, President & Chief Executive Officer

23 August 2023