中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

# 2024 Interim Results Highlights

## Financial Performance

- **Operating income** recorded HK$5.21 billion, a 9.0% year-on-year increase. Net interest income rose by 1.5% to HK$3.66 billion, and **net interest margin** widened by 2 basis points to reach 1.75%. **Non-interest income** surged by 31.9% to HK$1.55 billion.
- **Operating expenses** decreased by 5.9% year-on-year to HK$1.90 billion, and the cost-to-income ratio reduced by 5.8 percentage points year-on-year to 36.4%.
- **Operating profit before impairment** reached HK$3.31 billion, representing a year-on-year increase of 19.9%. **Impairment losses** amounted to HK$2.07 billion. **Net profit after tax** was HK$1.06 billion.
- **Impaired loan ratio** as of end-June 2024 was 2.58%.
- **Total assets** amounted to HK$459.72 billion, representing a 2.3% decrease compared to the end of last year. **Customer loans (including trade bills)** increased by 1.4% to HK$229.50 billion. **Customer deposits (including certificates of deposit issued)** decreased by 1.9% to HK$335.67 billion.
- **Capital adequacy ratio and CET1 ratio** met regulatory requirements at 18.7% and 13.3% respectively.

## Core Businesses

**Wholesale banking business's** total income reached HK$2.09 billion, of which non-interest income was HK$0.45 billion. Structured finance performed actively, and green and sustainable financial loans grew rapidly. According to statistics from the London Stock Exchange Group, the Group ranked seventh in the Hong Kong and Macau Syndicated Loan League Table for Mandated Lead Arranger and Bookrunner, and first in terms of transaction numbers. Green and sustainable financial loans reached HK$14.63 billion, an increase of 61.8% from the end of last year. Transaction banking products and service channels have been enhanced. In the first half of the year, the Group completed corporate listed payment and receiving bank services, or dividend payment services, for 14 companies, an increase of 7 year-on-year.

**Treasury and markets business** demonstrated stable performance and received market recognition. The Group earned prestigious accolades such as "Top 5 Trading Volume (SPOT) 2023" and "Top 5 Trading Volume (SWAP) 2023" from the London Stock Exchange Group, and ranked among the top three Chinese financial institutions in Hong Kong by RMB FX trading volume. For the custody business, as of end-June, the Group's total assets under custody surged from HK$178.4 billion at the end of last year to HK$224.4 billion. For the debt capital markets business, the Group completed 112 tranches of public bond issuance in the first half of the year.

**Personal and business banking business**'s total income was HK$2.01 billion, reflecting a year-on-year growth of 26.1%, with net interest income growing by 22.7% and non-interest income rising by 32.2%. The Group has also launched Cross-boundary Wealth Management Connect 2.0 services, resulting in significant growth in new account openings. Consequently, revenue generated from investment and insurance increased by 29.1% year-on-year, and Private Banking income rose by 31.9% year-on-year. The retail deposit balance grew by 11.6% compared to the end of last year. The number of mobile banking inMotion users increased by more than 15% from the end of last year, and digital sales transactions grew by around 60% year-on-year.

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 2024 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 2024. 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 2024 – unaudited**
*(Expressed in Hong Kong dollars)*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2024** | 2023 |
| | *Note* | ***HK$'000*** | *HK$'000* |
| Interest income | *3* | **10,554,131** | 9,526,218 |
| Interest expense | *4* | **(6,895,707)** | (5,923,251) |
| **Net interest income** | | **3,658,424** | 3,602,967 |
| Fee and commission income | | **999,075** | 780,992 |
| Fee and commission expense | | **(91,662)** | (74,305) |
| **Net fee and commission income** | *5* | **907,413** | 706,687 |
| Net trading income | *6* | **499,381** | 406,501 |
| Net gain on financial instruments mandatorily classified at fair value through profit or loss | | **118,391** | – |
| Net gain on disposal of financial investments at fair value through other comprehensive income | *15(b)* | **17,659** | 47,285 |
| Other operating income | *7* | **5,470** | 13,470 |
| **Operating income** | | **5,206,738** | 4,776,910 |
| **Operating expenses** | *8* | **(1,895,156)** | (2,014,341) |
| **Operating profit before impairment** | | **3,311,582** | 2,762,569 |
| Expected credit losses on financial assets | *9* | **(2,056,668)** | (718,010) |
| Impairment losses on other assets | | **(13,950)** | – |
| **Impairment losses** | | **(2,070,618)** | (718,010) |
| **Operating profit** | | **1,240,964** | 2,044,559 |
| Net loss on disposal of property and equipment and intangible assets | | **(177)** | (6,691) |
| Revaluation (loss)/gain on investment properties | *18* | **(35)** | 5,698 |
| **Profit before taxation** | | **1,240,752** | 2,043,566 |
| Income tax | *10* | **(182,461)** | (223,282) |
| **Profit for the period** | | **1,058,291** | 1,820,284 |
| **Profit attributable to shareholders** | | **1,058,291** | 1,820,284 |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**For the six months ended 30 June 2024 – unaudited**
*(Expressed in Hong Kong dollars)*

| | Six months ended 30 June | |
|---|---|---|
| | **2024** | 2023 |
| | ***HK$'000*** | *HK$'000* |
| **Profit for the period** | **1,058,291** | 1,820,284 |
| **Other comprehensive income for the period** | | |
| **Items that will be reclassified subsequently to consolidated income statement when specific conditions are met** | | |
| Exchange differences on translation of financial statements of foreign operations | **(43,213)** | (64,090) |
| Financial investments at fair value through other comprehensive income | | |
| – change in the fair value of debt instruments | **128,371** | 197,593 |
| – transfer to income statement on disposal | **(17,659)** | (47,285) |
| – transfer to income statement on impairment | **30,794** | 3,941 |
| – deferred tax related to the above | **(22,932)** | (25,327) |
| | **118,574** | 128,922 |
| **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 | **2,735** | (5,331) |
| – deferred tax related to the above | **(451)** | 880 |
| – deferred tax reversed on disposal | **–** | 7,106 |
| | **2,284** | 2,655 |
| **Other comprehensive income for the period** | **77,645** | 67,487 |
| **Total comprehensive income for the period** | **1,135,936** | 1,887,771 |
| **Total comprehensive income attributable to shareholders** | **1,135,936** | 1,887,771 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
**At 30 June 2024 – unaudited**
*(Expressed in Hong Kong dollars)*

| | *Note* | **At 30 June 2024** ***HK$'000*** | At 31 December 2023 *HK$'000* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with banks and central banks | *12* | **15,135,509** | 16,931,919 |
| Placements with and advances to banks | *13* | **42,241,652** | 55,052,186 |
| Financial assets held under resale agreements | *14* | | |
| – at fair value through profit or loss | | **3,797,089** | 3,101,202 |
| – at amortised cost | | **4,500,721** | 4,592,502 |
| Derivative financial instruments | *16(b)* | **18,139,810** | 19,414,161 |
| Financial investments | | | |
| – at fair value through profit or loss | *15(a)* | **2,511,523** | 2,449,217 |
| – at fair value through other comprehensive income | *15(b)* | **127,170,141** | 128,792,744 |
| Loans and advances to customers and other accounts | | | |
| – at fair value through profit or loss | *17(a)* | **9,749,301** | 5,435,290 |
| – at amortised cost | *17(a)* | **234,056,521** | 232,067,544 |
| Tax recoverable | *25(a)* | **9,296** | 9,582 |
| Right-of-use assets | *19* | **873,476** | 979,571 |
| Property and equipment | *18* | | |
| – Investment properties | | **401,300** | 401,335 |
| – Other premises and equipment | | **578,507** | 571,345 |
| Intangible assets | *20* | **428,721** | 401,188 |
| Deferred tax assets | *25(b)* | **125,824** | 187,145 |
| **Total Assets** | | **459,719,391** | 470,386,931 |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Deposits and balances of banks and other financial institutions | | **9,890,369** | 11,531,352 |
| Deposits from customers | *21* | **334,578,409** | 340,730,699 |
| Financial liabilities at fair value through profit or loss | *22* | **232,106** | 8,583 |
| Financial assets sold under repurchase agreements | *23* | | |
| – at fair value through profit or loss | | **3,068,682** | 2,835,191 |
| – at amortised cost | | **16,699,616** | 16,300,747 |
| Derivative financial instruments | *16(b)* | **17,171,216** | 19,408,277 |
| Certificates of deposit issued | *24* | **1,093,118** | 1,561,841 |
| Current tax liabilities | *25(a)* | **245,505** | 209,146 |
| Deferred tax liabilities | *25(b)* | **1,776** | 1,194 |
| Other liabilities | *26* | **17,391,903** | 15,401,974 |
| Lease liabilities | | **988,540** | 1,075,740 |
| Loan capital | *27* | **3,895,231** | 7,806,176 |
| **Total Liabilities** | | **405,256,471** | 416,870,920 |
| **Equity** | | | |
| Share capital | *28(a)* | **18,404,013** | 18,404,013 |
| Reserves | | **26,723,511** | 25,776,602 |
| **Total shareholders' equity** | | **45,127,524** | 44,180,615 |
| Other equity instruments | *29* | **9,335,396** | 9,335,396 |
| **Total Equity** | | **54,462,920** | 53,516,011 |
| **Total Equity and Liabilities** | | **459,719,391** | 470,386,931 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
**For the six months ended 30 June 2024 – unaudited**
*(Expressed in Hong Kong dollars)*

| | Share capital | Capital reserve | General reserve | Exchange differences reserve | Property revaluation reserve | Investment revaluation reserve | Statutory reserve | Regulatory general reserve | Retained profits | Total reserves | Total shareholders' equity | Other equity instruments | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **At 1 January 2024** | **18,404,013** | **3,771** | **100,000** | **(110,462)** | **294,533** | **(407,964)** | **69,250** | **311,817** | **25,515,657** | **25,776,602** | **44,180,615** | **9,335,396** | **53,516,011** |
| Changes in equity for the six months ended 30 June 2024: | | | | | | | | | | | | | |
| – Profit for the period | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **1,058,291** | **1,058,291** | **1,058,291** | **–** | **1,058,291** |
| – Other comprehensive (loss)/income for the period | **–** | **–** | **–** | **(43,213)** | **–** | **120,858** | **–** | **–** | **–** | **77,645** | **77,645** | **–** | **77,645** |
| **Total comprehensive income for the period** | **–** | **–** | **–** | **(43,213)** | **–** | **120,858** | **–** | **–** | **1,058,291** | **1,135,936** | **1,135,936** | **–** | **1,135,936** |
| Transfer from/(to) retained profits | **–** | **–** | **–** | **–** | **–** | **–** | **769** | **(750)** | **(19)** | **–** | **–** | **–** | **–** |
| Distribution payment for Additional Tier 1 Capital Securities ("AT1 Capital Securities") | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(189,027)** | **(189,027)** | **(189,027)** | **–** | **(189,027)** |
| **At 30 June 2024** | **18,404,013** | **3,771** | **100,000** | **(153,675)** | **294,533** | **(287,106)** | **70,019** | **311,067** | **26,384,902** | **26,723,511** | **45,127,524** | **9,335,396** | **54,462,920** |
| 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 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 July 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 |
| Changes in equity for the six months ended 31 December 2023: | | | | | | | | | | | | | |
| – Profit for the period | – | – | – | – | – | – | – | – | 766,613 | 766,613 | 766,613 | – | 766,613 |
| – Other comprehensive income for the period | – | – | – | 34,476 | – | 692,890 | – | – | – | 727,366 | 727,366 | – | 727,366 |
| Total comprehensive income for the period | – | – | – | 34,476 | – | 692,890 | – | – | 766,613 | 1,493,979 | 1,493,979 | – | 1,493,979 |
| Transfer from/(to) retained profits | – | – | – | – | – | 2 | 3,693 | 59,333 | (63,028) | – | – | – | – |
| Distribution payment for AT1 Capital Securities | – | – | – | – | – | – | – | – | (327,654) | (327,654) | (327,654) | – | (327,654) |
| Redemption of AT1 Capital Securities | – | – | – | – | – | – | – | – | (3,411) | (3,411) | (3,411) | (3,907,328) | (3,910,739) |
| Other adjustments | – | – | – | – | – | 7,106 | – | – | – | 7,106 | 7,106 | – | 7,106 |
| At 31 December 2023 | 18,404,013 | 3,771 | 100,000 | (110,462) | 294,533 | (407,964) | 69,250 | 311,817 | 25,515,657 | 25,776,602 | 44,180,615 | 9,335,396 | 53,516,011 |

**CONSOLIDATED STATEMENT OF CASH FLOWS**
**For the six months ended 30 June 2024 – unaudited**
*(Expressed in Hong Kong dollars)*

| | Note | Six months ended 30 June **2024** *HK$'000* | 2023 *HK$'000* |
|---|---|---|---|
| **Net cash flows used in operating activities** | *30(a)* | **(11,711,242)** | (16,831,154) |
| **Cash flows generated from/(used in) investing activities** | | | |
| Dividends received from equity securities | | **1,952** | 1,870 |
| Proceeds from disposal of property and equipment | | **8** | 9 |
| Purchase of property and equipment and intangible assets | | **(200,987)** | (275,527) |
| **Net cash flows used in investing activities** | | **(199,027)** | (273,648) |
| **Cash flows used in financing activities** | | | |
| Payment for redemption of loan capital | *30(c)* | **(3,912,179)** | – |
| Distribution paid on AT1 Capital Securities | | **(189,027)** | (328,603) |
| Payment of lease liabilities | | **(116,562)** | (133,209) |
| Interest paid on loan capital | | **(207,653)** | (90,766) |
| **Net cash flows used in financing activities** | | **(4,425,421)** | (552,578) |
| **Net decrease in cash and cash equivalents** | | **(16,335,690)** | (17,657,380) |
| **Cash and cash equivalents at 1 January** | | **60,327,388** | 67,858,838 |
| **Exchange differences in respect of cash and cash equivalents** | | **(641,791)** | (426,328) |
| **Cash and cash equivalents at 30 June** | *30(b)* | **43,349,907** | 49,775,130 |

## 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 2023 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 2023.

The financial information relating to the year ended 31 December 2023 that is included in the interim financial report for the six months ended 30 June 2024 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 2023 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 2023 annual financial statements, which have been prepared in accordance with HKFRSs.

Amendments to HKFRSs effective for the financial year ending 31 December 2024 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 | |
|---|---|---|
| | **2024** | 2023 |
| | ***HK$'000*** | *HK$'000* |
| Listed securities | **885,640** | 642,142 |
| Unlisted securities | **1,678,982** | 745,014 |
| Balances and placements with banks and advances to banks | **1,630,174** | 1,439,826 |
| Advances and other accounts | **6,359,335** | 6,699,236 |
| Interest income on financial assets | **10,554,131** | 9,526,218 |
| Of which: | | |
| Interest income on financial assets measured at amortised cost | **8,017,871** | 8,173,583 |
| Interest income on financial assets measured at fair value through other comprehensive income | **2,536,260** | 1,352,635 |
| | **10,554,131** | 9,526,218 |

## (4) INTEREST EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2024** | 2023 |
| | ***HK$'000*** | *HK$'000* |
| Deposits from customers | **5,955,248** | 5,281,924 |
| Deposits from banks and other financial institutions | **732,056** | 489,598 |
| Certificates of deposit issued | **39,860** | 43,843 |
| Loan capital issued | **149,379** | 93,201 |
| Lease liabilities | **19,164** | 14,685 |
| Interest expense on financial liabilities measured at amortised cost | **6,895,707** | 5,923,251 |

## (5) NET FEE AND COMMISSION INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2024** | 2023 |
| | ***HK$'000*** | *HK$'000* |
| **Fee and commission income** | | |
| Bills commission | **38,683** | 35,428 |
| Banking services | **96,947** | 64,191 |
| Card-related income | **31,616** | 21,946 |
| Debt capital markets | **40,463** | 17,991 |
| Insurance | **438,668** | 306,574 |
| Investment and structured investment products | **150,495** | 147,566 |
| Loans, overdrafts and facilities fees | **201,500** | 186,467 |
| Others | **703** | 829 |
| | **999,075** | 780,992 |
| **Fee and commission expense** | **(91,662)** | (74,305) |
| | **907,413** | 706,687 |
| 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 | **271,799** | 243,841 |
| – Fee and commission expense | **(18,439)** | (13,822) |
| | **253,360** | 230,019 |

**(6) NET TRADING INCOME**

| | Six months ended 30 June 2024 HK$'000 | 2023 HK$'000 |
|---|---|---|
| Net gains from dealing in foreign currencies | **241,774** | 81,627 |
| Net gains from financial investments at fair value through profit or loss | **42,941** | 32,461 |
| Net gains from other dealing activities | **44,128** | 121,867 |
| Net hedging gain/(loss) on fair value hedge | **3,755** | (126) |
| Net interest income on trading activities | | |
| – Listed | **12,696** | (362) |
| – Unlisted | **154,087** | 171,034 |
| | **499,381** | 406,501 |

**(7) OTHER OPERATING INCOME**

| | Six months ended 30 June 2024 HK$'000 | 2023 HK$'000 |
|---|---|---|
| Dividend income | | |
| – Unlisted investment | **1,952** | 1,870 |
| Rental income from investment properties | **4,002** | 3,835 |
| Other net (loss)/gain | **(484)** | 7,765 |
| | **5,470** | 13,470 |

**(8) OPERATING EXPENSES**

| | Six months ended 30 June 2024 HK$'000 | 2023 HK$'000 |
|---|---|---|
| **(a) Staff costs** | | |
| Salaries and other staff costs | **1,046,058** | 1,171,937 |
| Retirement costs | **85,316** | 80,373 |
| | **1,131,374** | 1,252,310 |
| **(b) Depreciation and amortisation** | | |
| Depreciation – property and equipment *(note 18)* | **70,354** | 61,424 |
| Depreciation – right-of-use assets *(note 19)* | **116,528** | 139,642 |
| Amortisation – intangible assets *(note 20)* | **95,181** | 115,335 |
| | **282,063** | 316,401 |
| **(c) Other operating expenses** | | |
| Property and equipment expenses (excluding depreciation) | **216,230** | 172,997 |
| Auditor's remuneration | | |
| – Audit fee | **3,445** | 3,344 |
| – Assurance related services fee | **291** | 488 |
| – Others | **1,140** | 2,261 |
| Advertising | **26,885** | 16,869 |
| Communication, printing and stationery | **93,285** | 94,043 |
| Electronic data processing | **85,188** | 83,143 |
| Legal and professional fees | **16,467** | 14,626 |
| Others | **38,788** | 57,859 |
| | **481,719** | 445,630 |
| **Total operating expenses** | **1,895,156** | 2,014,341 |

## (9) EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS

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

| | **Six months ended 30 June 2024** | | | |
|---|---|---|---|---|
| | **Stage 1** *HK$'000* | **Stage 2** *HK$'000* | **Stage 3** *HK$'000* | **Total** *HK$'000* |
| Balances with banks and central banks | **3** | **–** | **–** | **3** |
| Placements with and advances to banks | **2,703** | **–** | **–** | **2,703** |
| Financial assets held under resale agreements at amortised cost | **3** | **–** | **–** | **3** |
| Financial investments at fair value through other comprehensive income | **9,603** | **–** | **21,191** | **30,794** |
| Loans and advances to customers and other accounts | **88,544** | **(419,582)** | **2,437,116** | **2,106,078** |
| Loan commitments and guarantees | **(2,554)** | **10,082** | **–** | **7,528** |
| | **98,302** | **(409,500)** | **2,458,307** | **2,147,109** |
| Recoveries | | | | **(90,441)** |
| | | | | **2,056,668** |

| | 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 assets held under resale agreements at amortised cost | – | – | – | – |
| Financial investments at fair value through other comprehensive income | 5,421 | – | (1,480) | 3,941 |
| Loans and advances to customers and other accounts | (54,918) | (70,196) | 968,871 | 843,757 |
| Loan commitments and guarantees | (17,278) | 274 | – | (17,004) |
| | (61,123) | (69,922) | 967,391 | 836,346 |
| Recoveries | | | | (118,336) |
| | | | | 718,010 |

## (10) INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

| | Six months ended 30 June | |
|---|---|---|
| | **2024** | 2023 |
| | ***HK$'000*** | *HK$'000* |
| **Current tax – Hong Kong Profits Tax** | | |
| Provision for the period | **113,665** | 206,900 |
| Over-provision in respect of prior periods | **(27,326)** | (62,926) |
| | **86,339** | 143,974 |
| **Current tax – Taxation outside Hong Kong** | | |
| Provision for the period | **62,660** | 81,433 |
| Over-provision in respect of prior periods | **(3,398)** | (20,292) |
| | **59,262** | 61,141 |
| **Deferred tax** | | |
| Origination of temporary differences *(note 25(b))* | **36,860** | 18,167 |
| | **182,461** | 223,282 |

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 2023: 16.5%) of the estimated assessable profits for six months ended 30 June 2024. 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.

Income 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 2024 | | | | | | | |
| Net interest income | 1,638,911 | 1,251,362 | (178,628) | 168,189 | 778,590 | 3,658,424 | – | 3,658,424 |
| Other operating income | 447,496 | 761,683 | 318,448 | 53,251 | (7,243) | 1,573,635 | (42,980) | 1,530,655 |
| Net gain on disposal of financial investments at fair value through other comprehensive income | – | – | 11,888 | 5,712 | 59 | 17,659 | – | 17,659 |
| **Operating income** | 2,086,407 | 2,013,045 | 151,708 | 227,152 | 771,406 | 5,249,718 | (42,980) | 5,206,738 |
| Operating expenses | (192,516) | (612,619) | (146,892) | (101,669) | (875,180) | (1,928,876) | 33,720 | (1,895,156) |
| Inter-segment (expenses)/income | (76,216) | (352,041) | (60,153) | – | 488,410 | – | – | – |
| **Operating profit/(loss) before impairment** | 1,817,675 | 1,048,385 | (55,337) | 125,483 | 384,636 | 3,320,842 | (9,260) | 3,311,582 |
| Expected credit losses on financial assets | (1,859,791) | (135,919) | (27,603) | (44,260) | 10,905 | (2,056,668) | – | (2,056,668) |
| Impairment losses on other assets | – | (13,950) | – | – | – | (13,950) | – | (13,950) |
| **Operating profit/(loss)** | (42,116) | 898,516 | (82,940) | 81,223 | 395,541 | 1,250,224 | (9,260) | 1,240,964 |
| Net (loss)/gain on disposal of property and equipment and intangible assets | – | – | – | 1 | (178) | (177) | – | (177) |
| Revaluation loss on investment properties | – | – | – | – | (35) | (35) | – | (35) |
| **Profit/(loss) before taxation** | (42,116) | 898,516 | (82,940) | 81,224 | 395,328 | 1,250,012 | (9,260) | 1,240,752 |
| Income tax | | | | | | | | (182,461) |
| **Profit for the period** | | | | | | | | 1,058,291 |
| **Other segment items:** | | | | | | | | |
| Depreciation and amortisation | 10,384 | 68,481 | 5,880 | 13,280 | 184,038 | 282,063 | – | 282,063 |
| | At 30 June 2024 | | | | | | | |
| **Other segment items:** | | | | | | | | |
| Segment assets | 144,281,198 | 72,803,877 | 241,587,917 | 18,866,828 | 8,073,144 | 485,612,964 | (25,893,573) | 459,719,391 |
| Segment liabilities | 99,854,155 | 234,264,572 | 73,351,170 | 16,970,277 | 7,472,293 | 431,912,467 | (26,655,996) | 405,256,471 |
| Capital expenditure incurred during the period | 7,583 | 25,429 | – | 4,766 | 163,209 | 200,987 | – | 200,987 |

## (11) SEGMENT REPORTING (CONTINUED)

### (a) Reportable segments (continued)

| | Six months ended 30 June 2023 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 1,876,039 | 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 31 December 2023 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Other segment items:** | | | | | | | | |
| Segment assets | 141,110,553 | 72,727,048 | 256,394,264 | 19,877,993 | 10,149,503 | 500,259,361 | (29,872,430) | 470,386,931 |
| Segment liabilities | 129,470,043 | 210,486,287 | 77,606,473 | 18,029,599 | 11,275,116 | 446,867,518 | (29,996,598) | 416,870,920 |
| Capital expenditure incurred during the year | 4,430 | 4,453 | 1,584 | 4,770 | 435,658 | 450,895 | – | 450,895 |

## (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 | | | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| | **Profit/(loss) before taxation** | Profit/(loss) before taxation | **Operating income/(expenses)** | Operating income/(expenses) |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **1,487,589** | 1,826,799 | **4,739,947** | 4,244,978 |
| Mainland China | **81,606** | 51,561 | **227,222** | 189,273 |
| United States | **(211,443)** | (26,091) | **125,299** | 167,969 |
| Singapore | **(116,764)** | 185,338 | **139,474** | 182,250 |
| Others | **(286)** | 5,959 | **8,156** | 20,695 |
| Inter-segment items | **50** | – | **(33,360)** | (28,255) |
| | **1,240,752** | 2,043,566 | **5,206,738** | 4,776,910 |

| | **At 30 June 2024** | At 31 December 2023 | **At 30 June 2024** | At 31 December 2023 |
|---|---|---|---|---|
| | **Total assets** | Total assets | **Total liabilities** | Total liabilities |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **424,618,922** | 431,973,571 | **370,587,409** | 379,144,093 |
| Mainland China | **20,181,254** | 21,667,334 | **18,430,138** | 19,954,556 |
| United States | **15,360,875** | 16,500,733 | **15,632,469** | 16,861,135 |
| Singapore | **16,899,164** | 22,304,857 | **17,055,510** | 21,840,705 |
| Others | **1,980,472** | 2,410,842 | **1,941,750** | 2,355,930 |
| Inter-segment items | **(19,321,296)** | (24,470,406) | **(18,390,805)** | (23,285,499) |
| | **459,719,391** | 470,386,931 | **405,256,471** | 416,870,920 |

## (12) CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

| | **At 30 June 2024** | At 31 December 2023 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cash in hand | **224,145** | 266,373 |
| Balances with central banks | **5,307,205** | 3,902,909 |
| Balances with banks | **9,604,183** | 12,762,658 |
| | **15,135,533** | 16,931,940 |
| Expected credit losses allowances – Stage 1 | **(24)** | (21) |
| | **15,135,509** | 16,931,919 |

Included in the balances with central banks are balances subject to exchange control or regulatory restrictions, amounting to HK$591,149,000 as at 30 June 2024 (31 December 2023: HK$738,124,000).

## (13) PLACEMENTS WITH AND ADVANCES TO BANKS

| | **At 30 June 2024** *HK$'000* | At 31 December 2023 *HK$'000* |
|---|---|---|
| Placements with banks | **40,757,890** | 53,842,124 |
| Advances to banks | **1,502,058** | 1,225,655 |
| | **42,259,948** | 55,067,779 |
| Expected credit losses allowances – Stage 1 | **(18,296)** | (15,593) |
| | **42,241,652** | 55,052,186 |
| Maturing: | | |
| – Within 1 month | **20,110,197** | 28,995,932 |
| – Between 1 month and 1 year | **22,131,455** | 26,056,254 |
| | **42,241,652** | 55,052,186 |

## (14) FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

| | **At 30 June 2024** *HK$'000* | At 31 December 2023 *HK$'000* |
|---|---|---|
| **By types of counterparty** | | |
| Banks | **1,967,597** | 2,574,895 |
| Non-bank financial institutions | **1,829,492** | 526,307 |
| **Carry amount at fair value through profit or loss** | **3,797,089** | 3,101,202 |
| Banks | **1,745,827** | – |
| Non-bank financial institutions | **2,754,897** | 4,592,502 |
| Gross amount at amortised cost | **4,500,724** | 4,592,502 |
| Expected credit losses allowances – Stage 1 | **(3)** | – |
| **Net amount at amortised cost** | **4,500,721** | 4,592,502 |
| **Total amount** | **8,297,810** | 7,693,704 |

**By types of collateral**

As at 30 June 2024 and 31 December 2023, 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 2024 HK$'000 | At 31 December 2023 HK$'000 |
|---|---|---|
| **Debt securities** | | |
| Certificates of deposit held | **136,824** | – |
| Other debt securities | **989,821** | 1,060,285 |
| | **1,126,645** | 1,060,285 |
| **Other investment** | **1,383,389** | 1,388,932 |
| **Equity securities** | **1,489** | – |
| | **2,511,523** | 2,449,217 |
| **Issued by:** | | |
| Sovereigns | **175,734** | 524,599 |
| Banks and other financial institutions | **795,867** | 460,518 |
| Corporate entities | **1,539,922** | 1,464,100 |
| | **2,511,523** | 2,449,217 |
| Listed | **874,364** | 1,046,789 |
| Unlisted | **1,637,159** | 1,402,428 |
| | **2,511,523** | 2,449,217 |

### (b) At fair value through other comprehensive income

| | At 30 June 2024 HK$'000 | At 31 December 2023 HK$'000 |
|---|---|---|
| **Debt securities** | | |
| Certificates of deposit held | **10,204,174** | 5,216,357 |
| Treasury bills | **40,491,130** | 64,767,618 |
| Other debt securities | **76,396,558** | 58,732,952 |
| | **127,091,862** | 128,716,927 |
| **Equity securities** | **78,279** | 75,817 |
| | **127,170,141** | 128,792,744 |
| **Issued by:** | | |
| Sovereigns | **48,885,032** | 76,457,895 |
| Banks and other financial institutions | **57,341,478** | 37,034,055 |
| Corporate entities | **14,669,480** | 10,978,955 |
| Public entities | **6,274,151** | 4,321,839 |
| | **127,170,141** | 128,792,744 |
| Listed | **48,987,095** | 40,342,518 |
| Unlisted | **78,183,046** | 88,450,226 |
| | **127,170,141** | 128,792,744 |

For the six months ended 30 June 2024, upon disposal of debt securities at FVOCI, the cumulative gains or loss previously recognised in other comprehensive income are reclassified from other comprehensive income to income statement amounted to net gains of HK$17,659,000 (six months ended 30 June 2023: net gains of HK$47,285,000).

## (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 2024** *HK$'000* | At 31 December 2023 *HK$'000* |
|---|---|---|
| **Currency derivatives** | | |
| Forwards | **90,187,096** | 68,190,274 |
| Swaps | **1,385,028,656** | 1,108,997,386 |
| Options purchased | **103,226,535** | 71,129,225 |
| Options written | **97,212,565** | 65,478,211 |
| **Interest rate derivatives** | | |
| Forwards/Futures | **21,370,467** | 554,454 |
| Swaps | **1,025,355,727** | 1,036,122,182 |
| Options purchased | **3,874,276** | 1,000,000 |
| Options written | **4,365,983** | 1,000,000 |
| | **2,730,621,305** | 2,352,471,732 |

As at 30 June 2024, the notional amount of interest rate swaps held for hedging amounted to HK$5,536,687,000 (31 December 2023: HK$788,730,000).

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.

### (b) Fair values of derivatives

| | **At 30 June 2024** | | At 31 December 2023 | |
|---|---|---|---|---|
| | **Fair value assets** *HK$'000* | **Fair value liabilities** *HK$'000* | Fair value assets *HK$'000* | Fair value liabilities *HK$'000* |
| Currency derivatives | **9,847,289** | **9,002,258** | 10,974,026 | 11,104,705 |
| Interest rate derivatives | **8,292,521** | **8,168,958** | 8,440,135 | 8,303,572 |
| | **18,139,810** | **17,171,216** | 19,414,161 | 19,408,277 |

(16) DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

**(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 2024** | | At 31 December 2023 | |
|---|---|---|---|---|
| | **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 | **77,768** | **10,043** | 3,488 | – |

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.

**(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 2024 Notional amounts with remaining life of** | | | |
|---|---|---|---|---|
| | **Total** ***HK$'000*** | **1 year or less** ***HK$'000*** | **Over 1 year to 5 years** ***HK$'000*** | **Over 5 years** ***HK$'000*** |
| Currency derivatives | **1,675,654,852** | **1,557,468,094** | **117,071,522** | **1,115,236** |
| Interest rate derivatives | **1,054,966,453** | **567,074,676** | **450,664,406** | **37,227,371** |
| | **2,730,621,305** | **2,124,542,770** | **567,735,928** | **38,342,607** |

| | At 31 December 2023 Notional amounts with remaining life of | | | |
|---|---|---|---|---|
| | Total *HK$'000* | 1 year or less *HK$'000* | Over 1 year to 5 years *HK$'000* | Over 5 years *HK$'000* |
| Currency derivatives | 1,313,795,096 | 1,202,479,859 | 109,991,741 | 1,323,496 |
| Interest rate derivatives | 1,038,676,636 | 513,821,360 | 487,328,921 | 37,526,355 |
| | 2,352,471,732 | 1,716,301,219 | 597,320,662 | 38,849,851 |

## (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 2024** ***HK$'000*** | At 31 December 2023 *HK$'000* |
|---|---|---|
| **At amortised cost** | | |
| Loans and advances to customers – gross carrying amount | **219,747,624** | 220,850,976 |
| Expected credit losses allowances | **(1,694,804)** | (1,193,248) |
| | **218,052,820** | 219,657,728 |
| Other accounts | **17,010,835** | 13,222,978 |
| Expected credit losses allowances | **(993,184)** | (813,162) |
| Impairment allowances on other assets | **(13,950)** | – |
| | **16,003,701** | 12,409,816 |
| | **234,056,521** | 232,067,544 |
| **At fair value through profit and loss** | | |
| Loans and advances to customers | **9,749,301** | 5,435,290 |
| | **243,805,822** | 237,502,834 |

## (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 2024** | | At 31 December 2023 | |
|---|---|---|---|---|
| | **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 | **5,595,698** | **87** | 7,042,615 | 79 |
| – Property investment | **23,644,501** | **94** | 22,474,814 | 98 |
| – Financial concerns | **23,493,098** | **6** | 22,989,260 | 5 |
| – Stockbrokers | **2,241,078** | **16** | 1,497,664 | 31 |
| – Wholesale and retail trade | **10,362,754** | **75** | 8,761,242 | 84 |
| – Manufacturing | **4,710,940** | **39** | 5,904,061 | 28 |
| – Transport and transport equipment | **2,714,665** | **19** | 3,385,442 | 13 |
| – Recreational activities | **267,246** | **–** | 660,273 | 4 |
| – Information technology | **759,017** | **6** | 598,783 | 7 |
| – Others | **10,161,878** | **69** | 9,596,138 | 75 |
| Individuals | | | | |
| – Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | **14,385** | **100** | 13,970 | 100 |
| – Loans for the purchase of other residential properties | **23,045,027** | **100** | 22,343,811 | 100 |
| – Credit card advances | **647,073** | **–** | 619,417 | – |
| – Others | **16,252,442** | **88** | 16,951,606 | 87 |
| Gross loans and advances for use in Hong Kong | **123,909,802** | **67** | 122,839,096 | 68 |
| Trade finance | **7,630,271** | **21** | 5,524,125 | 22 |
| Gross loans and advances for use outside Hong Kong | **97,956,852** | **24** | 97,923,045 | 22 |
| **Gross loans and advances to customers** | **229,496,925** | **47** | 226,286,266 | 47 |

## (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 2024 | | | |
|---|---|---|---|---|
| | Stage 1 *HK$'000* | Stage 2 *HK$'000* | Stage 3 *HK$'000* | Total *HK$'000* |
| **ECL allowances** | | | | |
| **At 1 January 2024** | **324,697** | **644,482** | **1,037,231** | **2,006,410** |
| Transfer: | | | | |
| – Transfer to Stage 1 | **3,413** | **(3,413)** | **–** | **–** |
| – Transfer to Stage 2 | **(8,295)** | **8,295** | **–** | **–** |
| – Transfer to Stage 3 | **(298)** | **(572,960)** | **573,258** | **–** |
| Changes arising from transfer of stage | **(3,074)** | **172,759** | **360,353** | **530,038** |
| Net charge/(reversal) for the period arising from net change in exposures | **42,338** | **(22,382)** | **(2,989)** | **16,967** |
| Changes in risk parameters and model inputs | **54,460** | **(1,881)** | **1,506,494** | **1,559,073** |
| Amount written-offs | **–** | **–** | **(1,466,414)** | **(1,466,414)** |
| Other movements | **–** | **–** | **41,914** | **41,914** |
| **At 30 June 2024** | **413,241** | **224,900** | **2,049,847** | **2,687,988** |

| | Six months ended 30 June 2024 | | | |
|---|---|---|---|---|
| | Stage 1 *HK$'000* | Stage 2 *HK$'000* | Stage 3 *HK$'000* | Total *HK$'000* |
| **Gross carrying amount** | | | | |
| **At 1 January 2024** | **220,355,148** | **7,332,795** | **5,979,978** | **233,667,921** |
| Transfer: | | | | |
| – Transfer to Stage 1 | **416,531** | **(413,707)** | **(2,824)** | **–** |
| – Transfer to Stage 2 | **(2,052,432)** | **2,054,747** | **(2,315)** | **–** |
| – Transfer to Stage 3 | **(66,039)** | **(2,480,780)** | **2,546,819** | **–** |
| Net change in exposures | **4,098,786** | **(364,054)** | **8,768** | **3,743,500** |
| Amount written-offs | **–** | **–** | **(1,466,414)** | **(1,466,414)** |
| Other movements | **–** | **–** | **213,751** | **213,751** |
| **At 30 June 2024** | **222,751,994** | **6,129,001** | **7,277,763** | **236,158,758** |

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

| | At 30 June 2024 | | | |
|---|---|---|---|---|
| | Stage 1 *HK$'000* | Stage 2 *HK$'000* | Stage 3 *HK$'000* | Total *HK$'000* |
| **Gross carrying amount** | | | | |
| Loans and advances to customers | **207,833,791** | **5,992,013** | **5,921,820** | **219,747,624** |
| Other accounts | **14,918,203** | **136,988** | **1,355,943** | **16,411,134** |
| | **222,751,994** | **6,129,001** | **7,277,763** | **236,158,758** |

## (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)

| | 2023 | | | |
|---|---|---|---|---|
| | Stage 1<br>*HK$'000* | Stage 2<br>*HK$'000* | Stage 3<br>*HK$'000* | Total<br>*HK$'000* |
| ECL allowances | | | | |
| At 1 January 2023 | 702,523 | 423,007 | 746,212 | 1,871,742 |
| Transfer: | | | | |
| – Transfer to Stage 1 | 58,244 | (51,631) | (6,613) | – |
| – Transfer to Stage 2 | (72,492) | 72,555 | (63) | – |
| – Transfer to Stage 3 | (45,195) | (252,955) | 298,150 | – |
| Changes arising from transfer of stage | (51,397) | 239,916 | 2,529,509 | 2,718,028 |
| Net (reversal)/charge for the year arising from net change in exposures | (90,179) | 74,179 | 407,382 | 391,382 |
| Changes in risk parameters and model inputs | (176,807) | 139,411 | – | (37,396) |
| Amount written-offs | – | – | (2,918,737) | (2,918,737) |
| Other movements | – | – | (18,609) | (18,609) |
| At 31 December 2023 | 324,697 | 644,482 | 1,037,231 | 2,006,410 |

| | 2023 | | | |
|---|---|---|---|---|
| | Stage 1<br>*HK$'000* | Stage 2<br>*HK$'000* | Stage 3<br>*HK$'000* | Total<br>*HK$'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 | 4,705,103 | (4,697,960) | (7,143) | – |
| – Transfer to Stage 2 | (6,900,014) | 6,941,993 | (41,979) | – |
| – Transfer to Stage 3 | (1,521,943) | (3,787,570) | 5,309,513 | – |
| Net change in exposures | (14,859,486) | (928,879) | (1,334,568) | (17,122,933) |
| Amount written-offs | – | – | (2,918,737) | (2,918,737) |
| Other movements | – | – | 312,287 | 312,287 |
| At 31 December 2023 | 220,355,148 | 7,332,795 | 5,979,978 | 233,667,921 |

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

| | At 31 December 2023 | | | |
|---|---|---|---|---|
| | Stage 1<br>*HK$'000* | Stage 2<br>*HK$'000* | Stage 3<br>*HK$'000* | Total<br>*HK$'000* |
| Gross carrying amount | | | | |
| Loans and advances to customers | 208,350,761 | 7,332,795 | 5,167,420 | 220,850,976 |
| Other accounts | 12,004,387 | – | 812,558 | 12,816,945 |
| | 220,355,148 | 7,332,795 | 5,979,978 | 233,667,921 |

*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 2024** *HK$'000* | At 31 December 2023 *HK$'000* |
|---|---|---|
| Gross impaired loans and advances to customers | **5,921,820** | 5,167,420 |
| Expected credit losses allowances – Stage 3 | **(1,056,966)** | (224,673) |
| | **4,864,854** | 4,942,747 |
| Gross impaired loans and advances as a % of total loans and advances to customers | **2.58%** | 2.28% |

As at 30 June 2024, the secured gross impaired loans and advances to customers amounts to HK$3,916,393,000 (31 December 2023: HK$3,374,297,000) 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 2024** | | | | |
|---|---|---|---|---|---|
| | **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* |
| Property investment | **192,040** | **217,262** | **6,709** | **–** | **31,748** |
| Financial concerns | **51,382** | **51,382** | **35,421** | **–** | **20,799** |
| Loans for the purchase of other residential properties | **43,430** | **58,762** | **1,441** | **5,276** | **10** |
| Gross loans and advances for use outside Hong Kong | **5,203,779** | **3,704,624** | **276,308** | **139,150** | **754,085** |

| | At 31 December 2023 | | | | |
|---|---|---|---|---|---|
| | 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* |
| Financial concerns | 51,382 | 51,382 | 28,739 | 4,175 | 18,189 |
| Gross loans and advances for use outside Hong Kong | 2,459,613 | 2,981,621 | 215,761 | 596,181 | 26,285 |

## (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 2024 | **401,335** | **616,996** | **1,137,439** | **2,155,770** |
| Additions | **–** | **–** | **78,127** | **78,127** |
| Disposals | **–** | **–** | **(15,648)** | **(15,648)** |
| Deficit on revaluation | **(35)** | **–** | **–** | **(35)** |
| Exchange adjustments | **–** | **–** | **(2,956)** | **(2,956)** |
| **At 30 June 2024** | **401,300** | **616,996** | **1,196,962** | **2,215,258** |
| At 1 January 2023 | 399,492 | 616,996 | 1,008,372 | 2,024,860 |
| Additions | – | – | 291,416 | 291,416 |
| Disposals | – | – | (161,422) | (161,422) |
| Surplus on revaluation | 1,843 | – | – | 1,843 |
| Exchange adjustments | – | – | (927) | (927) |
| At 31 December 2023 | 401,335 | 616,996 | 1,137,439 | 2,155,770 |
| **Accumulated depreciation:** | | | | |
| At 1 January 2024 | **–** | **398,174** | **784,916** | **1,183,090** |
| Charge for the period *(note 8(b))* | **–** | **7,554** | **62,800** | **70,354** |
| Written back on disposals | **–** | **–** | **(15,463)** | **(15,463)** |
| Exchange adjustments | **–** | **–** | **(2,530)** | **(2,530)** |
| **At 30 June 2024** | **–** | **405,728** | **829,723** | **1,235,451** |
| At 1 January 2023 | – | 382,707 | 823,753 | 1,206,460 |
| Charge for the year | – | 15,467 | 116,388 | 131,855 |
| Written back on disposals | – | – | (154,629) | (154,629) |
| Exchange adjustments | – | – | (596) | (596) |
| At 31 December 2023 | – | 398,174 | 784,916 | 1,183,090 |
| **Net book value:** | | | | |
| **At 30 June 2024** | **401,300** | **211,268** | **367,239** | **979,807** |
| At 31 December 2023 | 401,335 | 218,822 | 352,523 | 972,680 |

**(18) PROPERTY AND EQUIPMENT (CONTINUED)**

**Investment properties**

All investment properties of the Group were revalued and assessed by the management of the Group as at 30 June 2024 with reference to a property valuation report which was conducted by an independent firm of surveyors, who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The basis of the property valuation is market value, which is consistent with the definition of fair value under HKFRS 13, Fair value measurement. The revaluation deficit of HK$35,000 for the six month ended 30 June 2024 (year ended 31 December 2023: a revaluation surplus of HK$1,843,000; and six month ended 30 June 2023: a revaluation surplus of HK$5,698,000) was recognised by the Group and has been charged to the consolidated income statement.

**(19) RIGHT-OF-USE ASSETS**

| | **Leased premises** *HK$'000* | **Equipment and others** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2024 | **1,280,889** | **1,926** | **1,282,815** |
| Additions | **10,946** | **1,382** | **12,328** |
| Reductions | **(15,601)** | **(1,584)** | **(17,185)** |
| Exchange adjustments | **(4,348)** | **(62)** | **(4,410)** |
| **At 30 June 2024** | **1,271,886** | **1,662** | **1,273,548** |
| At 1 January 2023 | 1,638,274 | 1,887 | 1,640,161 |
| Additions | 375,952 | – | 375,952 |
| Reductions | (733,399) | – | (733,399) |
| Adjustments | (613) | – | (613) |
| Exchange adjustments | 675 | 39 | 714 |
| At 31 December 2023 | 1,280,889 | 1,926 | 1,282,815 |
| **Accumulated depreciation:** | | | |
| At 1 January 2024 | **301,348** | **1,896** | **303,244** |
| Charge for the period *(note 8(b))* | **116,268** | **260** | **116,528** |
| Reductions | **(15,601)** | **(1,584)** | **(17,185)** |
| Exchange adjustments | **(2,471)** | **(44)** | **(2,515)** |
| **At 30 June 2024** | **399,544** | **528** | **400,072** |
| At 1 January 2023 | 771,754 | 1,554 | 773,308 |
| Charge for the year | 262,021 | 305 | 262,326 |
| Reductions | (733,349) | – | (733,349) |
| Exchange adjustments | 922 | 37 | 959 |
| At 31 December 2023 | 301,348 | 1,896 | 303,244 |
| **Net book value:** | | | |
| **At 30 June 2024** | **872,342** | **1,134** | **873,476** |
| At 31 December 2023 | 979,541 | 30 | 979,571 |

## (20) INTANGIBLE ASSETS

| | **Software** |
|---|---|
| | ***HK$'000*** |
| **Cost:** | |
| At 1 January 2024 | **1,844,922** |
| Additions | **122,860** |
| Disposals | **(21)** |
| Exchange adjustments | **(917)** |
| **At 30 June 2024** | **1,966,844** |
| At 1 January 2023 | 1,685,551 |
| Additions | 159,479 |
| Disposals | (86) |
| Exchange adjustments | (22) |
| At 31 December 2023 | 1,844,922 |
| **Accumulated amortisation:** | |
| At 1 January 2024 | **1,443,734** |
| Charge for the period *(note 8(b))* | **95,181** |
| Disposals | **(21)** |
| Exchange adjustments | **(771)** |
| **At 30 June 2024** | **1,538,123** |
| At 1 January 2023 | 1,231,607 |
| Charge for the year | 212,262 |
| Disposals | (86) |
| Exchange adjustments | (49) |
| At 31 December 2023 | 1,443,734 |
| **Net book value:** | |
| **At 30 June 2024** | **428,721** |
| At 31 December 2023 | 401,188 |

## (21) DEPOSITS FROM CUSTOMERS

| | **At 30 June 2024** | At 31 December 2023 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Demand deposits and current deposits | **35,333,276** | 34,130,873 |
| Savings deposits | **62,801,642** | 51,086,060 |
| Time, call and notice deposits | **236,443,491** | 255,513,766 |
| | **334,578,409** | 340,730,699 |

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

| | **At 30 June 2024** | At 31 December 2023 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Short positions of debt securities | **232,106** | 8,583 |

## (23) FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

| | At 30 June 2024 *HK$'000* | At 31 December 2023 *HK$'000* |
|---|---|---|
| **By types of counterparty** | | |
| Banks | **3,068,682** | 2,835,191 |
| **Carry amount at fair value through profit or loss** | **3,068,682** | 2,835,191 |
| Banks | **16,699,616** | 15,537,207 |
| Non-bank financial institutions | **–** | 763,540 |
| **Carry amount at amortised cost** | **16,699,616** | 16,300,747 |
| **Total amount** | **19,768,298** | 19,135,938 |
| **By types of collateral** | | |
| Debt securities | **19,768,298** | 19,135,938 |

The Group did not derecognize financial assets used as collateral in connection with financial assets sold under repurchase agreements. As at 30 June 2024 and 31 December 2023, no legal title of the collateral has been transferred to counterparties.

## (24) CERTIFICATES OF DEPOSIT ISSUED

| | At 30 June 2024 *HK$'000* | At 31 December 2023 *HK$'000* |
|---|---|---|
| At amortised cost | **1,093,118** | 1,561,841 |

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 2024 *HK$'000* | At 31 December 2023 *HK$'000* |
|---|---|---|
| Hong Kong Profits Tax | **198,597** | 159,115 |
| Taxation outside Hong Kong | **37,612** | 40,449 |
| | **236,209** | 199,564 |
| Of which: | | |
| Tax recoverable | **(9,296)** | (9,582) |
| Current tax liabilities | **245,505** | 209,146 |
| | **236,209** | 199,564 |

(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* | Others *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|
| **Deferred tax arising from:** | | | | | | |
| **At 1 January 2024** | **99,556** | **(151,962)** | **878** | **(114,998)** | **(19,425)** | **(185,951)** |
| Charged/(credited) to consolidated income statement *(note 10)* | **5,509** | **35,728** | **(196)** | **–** | **(4,181)** | **36,860** |
| Charged to reserves | **–** | **–** | **–** | **23,383** | **–** | **23,383** |
| Exchange and other adjustments | **(10)** | **1,384** | **1** | **–** | **285** | **1,660** |
| **At 30 June 2024** | **105,055** | **(114,850)** | **683** | **(91,615)** | **(23,321)** | **(124,048)** |
| At 1 January 2023 | 88,971 | (209,071) | 961 | (279,701) | (17,045) | (415,885) |
| Charged/(credited) to consolidated income statement | 10,570 | 56,561 | (82) | – | (2,266) | 64,783 |
| Charged to reserves | – | – | – | 164,703 | – | 164,703 |
| Exchange and other adjustments | 15 | 548 | (1) | – | (114) | 448 |
| At 31 December 2023 | 99,556 | (151,962) | 878 | (114,998) | (19,425) | (185,951) |

| | **At 30 June 2024** *HK$'000* | At 31 December 2023 *HK$'000* |
|---|---|---|
| Net deferred tax assets recognised on the consolidated statement of financial position | **(125,824)** | (187,145) |
| Net deferred tax liabilities recognised on the consolidated statement of financial position | **1,776** | 1,194 |
| | **(124,048)** | (185,951) |

Among the deferred tax assets and liabilities, the whole amount is expected to be recovered or settled more than twelve months after the period/year ended.

**(c) Deferred tax assets not recognised**

For the period ended 30 June 2024 and year ended 31 December 2023, the amount of deferred tax assets recognised on tax losses are immaterial.

**(26) OTHER LIABILITIES**

| | **At 30 June 2024** *HK$'000* | At 31 December 2023 *HK$'000* |
|---|---|---|
| Accruals and other payables and provisions | **16,032,718** | 14,066,351 |
| Deposit from an immediate holding company | **1,359,185** | 1,335,623 |
| | **17,391,903** | 15,401,974 |

At 30 June 2024, included above is the expected credit losses allowances on loan commitments and guarantees for Stage 1 and Stage 2 amounted to HK$79,807,000 and HK$11,382,000 respectively (31 December 2023: Stage 1: HK$82,361,000 and Stage 2: HK$1,300,000).

At 30 June 2024, the amount of interest payables from financial liabilities at amortised costs were HK$2,200,314,000 (31 December 2023: HK$2,698,076,000).

**(27) LOAN CAPITAL**

| | **At 30 June 2024** *HK$'000* | At 31 December 2023 *HK$'000* |
|---|---|---|
| Subordinated notes, at amortised cost: | | |
| US$500 million Subordinated Fixed Rate Notes at 4.625%, due 2029* | – | 3,903,198 |
| US$500 million Subordinated Fixed Rate Notes at 6.00%, due 2033** | **3,895,231** | 3,902,978 |
| | **3,895,231** | 7,806,176 |

* 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) which is 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 the first call date on 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. The notes were fully redeemed by the Bank on 28 February 2024.

** Under the Programme and supplemental offering circulars released in December 2023, the Bank issued subordinated notes on 5 December 2023 with a face value of US$500 million (equivalent to HK$3,913.9 million) which is qualified as Basel III-compliant Tier-2 capital. The notes carry interest at a fixed rate of 6.00% per annum, payable semi-annually until the first call date on 5 December 2028, and thereafter fixed at the interest rate of the prevailing five-year US Treasury bonds yield plus 1.65% 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 5 December 2033 with an optional redemption date falling on 5 December 2028.

**(28) CAPITAL AND RESERVES**

**(a) Share capital**

| ***Ordinary shares, issued and fully paid:*** | **2024** | | 2023 | |
|---|---|---|---|---|
| | ***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 |

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

## (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 2024, HK$2,582,480,000 (31 December 2023: HK$2,219,486,000) 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 2024 HK$'000 | At 31 December 2023 HK$'000 |
|---|---|---|
| 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 |
| | **9,335,396** | 9,335,396 |

* 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$76,264,000) was paid during six months ended 30 June 2024 (for the year ended 31 December 2023: US$19,500,000, equivalent to HK$152,372,000).

** 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$112,763,000) was paid during six months ended 30 June 2024 (for the year ended 31 December 2023: US$28,800,000, equivalent to HK$225,719,000).

## (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 2024 HK$'000 | 2023 HK$'000 |
|---|---|---|
| **Operating activities** | | |
| Profit before taxation | **1,240,752** | 2,043,566 |
| Adjustments for: | | |
| Expected credit losses charged on financial assets | **2,056,668** | 718,010 |
| Impairment losses on other assets | **13,950** | – |
| Net gain on disposal of financial investments at fair value through other comprehensive income | **(17,659)** | (47,285) |
| Net gain on financial instruments classified at fair value through profit or loss | **(118,391)** | – |
| Net loss on disposal of property and equipment and intangible assets | **177** | 6,691 |
| Revaluation loss/(gain) on investment properties | **35** | (5,698) |
| Amortisation of deferred expenses | **170,710** | 143,942 |
| Amortisation of intangible assets | **95,181** | 115,335 |
| Depreciation on property and equipment | **70,354** | 61,424 |
| Depreciation on right-of-use assets | **116,528** | 139,642 |
| Dividend income from equity securities | **(1,952)** | (1,870) |
| Interest expense on loan capital | **149,379** | 93,201 |
| Foreign exchange differences | **620,519** | 386,074 |
| **Operating profit before changes in working capital** | **4,396,251** | 3,653,032 |
| **Net (increase)/decrease in operating assets** | | |
| Placements with and advances to banks with original maturity beyond 3 months | **7,655,804** | (17,019,387) |
| Financial assets held under resale agreements | **(604,108)** | (5,398,678) |
| Treasury bills with original maturity beyond 3 months | **13,743,603** | 11,848,044 |
| Certificates of deposit held with original maturity beyond 3 months | **(4,620,802)** | (2,400,087) |
| Financial investments at fair value through profit or loss | **76,087** | (157,204) |
| Financial investments at fair value through other comprehensive income | **(17,488,167)** | (9,029,270) |
| Derivative financial instruments | **1,274,351** | (5,644,011) |
| Loans and advances to customers and other accounts | **(8,451,330)** | (7,552,543) |
| | **(8,414,562)** | (35,353,136) |
| **Net increase/(decrease) in operating liabilities** | | |
| Deposits and balances of banks and other financial institutions | **(1,640,982)** | 4,195,470 |
| Deposits from customers | **(6,152,290)** | (16,513,050) |
| Financial liabilities at fair value through profit or loss | **223,523** | (58,776) |
| Financial assets sold under resale agreements | **632,360** | 13,533,501 |
| Derivative financial instruments | **(2,237,061)** | 5,571,761 |
| Certificates of deposit issued | **(478,834)** | 655,070 |
| Other liabilities | **2,067,908** | 7,761,058 |
| | **(7,585,376)** | 15,145,034 |
| **Cash used in operating activities** | **(11,603,687)** | (16,555,070) |
| **Income tax paid** | | |
| Hong Kong Profits Tax paid | **(46,857)** | (177,624) |
| Taxation outside Hong Kong paid | **(60,698)** | (98,460) |
| **Net cash flows used in operating activities** | **(11,711,242)** | (16,831,154) |
| **Cash flows from operating activities include:** | | |
| Interest received | **10,382,526** | 8,676,856 |
| Interest paid | **(7,193,827)** | (5,236,364) |

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

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

| | **At 30 June 2024** **HK$'000** | At 30 June 2023 HK$'000 |
|---|---|---|
| Cash and balances with banks and central banks | **14,544,384** | 11,114,462 |
| Placements with and advances to banks with original maturity within 3 months | **22,353,284** | 30,738,117 |
| Treasury bills and certificates of deposit held with original maturity within 3 months | | |
| – at fair value through profit or loss | **74,774** | – |
| – at fair value through other comprehensive income | **6,377,465** | 7,874,281 |
| – at amortised cost | **–** | 48,270 |
| | **43,349,907** | 49,775,130 |

### (c) Changes in liabilities arising from financing activities

| (i) Loan capital | **2024** **HK$'000** | 2023 HK$'000 |
|---|---|---|
| **At 1 January** | **7,806,176** | 3,890,992 |
| Redemption | **(3,912,179)** | – |
| Foreign exchange differences | **7,598** | 18,107 |
| Other non-cash adjustments | **(6,364)** | 2,547 |
| **At 30 June** | **3,895,231** | 3,911,646 |

| (ii) Lease Liabilities | **2024** **HK$'000** | 2023 HK$'000 |
|---|---|---|
| **At 1 January** | **1,075,740** | 907,139 |
| Payment of lease liabilities | **(116,562)** | (133,209) |
| Other non-cash items: | | |
| – Additions | **12,328** | 83,947 |
| – Adjustments | **–** | (613) |
| – Other changes | **17,034** | 12,625 |
| **At 30 June** | **988,540** | 869,889 |

## (31) ASSETS PLEDGED AS SECURITY

| | **At 30 June 2024** **HK$'000** | At 31 December 2023 HK$'000 |
|---|---|---|
| Financial investments at fair value through other comprehensive income pledged as: | | |
| – Statutory deposits *(note)* | **234,232** | 249,830 |
| – Collateral under sale and repurchase transactions | **17,232,999** | 16,598,930 |
| | **17,467,231** | 16,848,760 |
| Financial investments at fair value through profit or loss pledged as: | | |
| – Collateral under sale and repurchase transactions | **1,942,658** | 1,249,713 |
| Other assets pledged as collateral under sale and repurchase transaction | **1,171,246** | 1,555,530 |
| | **20,581,135** | 19,654,003 |

*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 | | | | | |
| | **2024** **HK$'000** | 2023 HK$'000 | **2024** **HK$'000** | 2023 HK$'000 | **2024** **HK$'000** | 2023 HK$'000 | **2024** **HK$'000** | 2023 HK$'000 | **2024** **HK$'000** | 2023 HK$'000 |
| Interest income | **10,665** | 11,772 | **–** | – | **158,884** | 195,766 | **91,357** | 80,445 | **–** | – |
| Interest expense | **(7,643)** | (12,374) | **(29,003)** | (39,555) | **(57,373)** | (77,064) | **(31,810)** | (46,224) | **–** | (2) |
| Fee and commission income | **7,697** | 4,219 | **–** | – | **1,203** | 791 | **1,265** | 70 | **–** | – |
| Net trading income/(loss) | **190,619** | 51,643 | **–** | – | **23,771** | (4,156) | **94** | (4,181) | **–** | – |
| Operating expenses | **(5,637)** | (2,242) | **–** | – | **(31,794)** | (31,010) | **(2,044)** | (2,085) | **–** | – |
| | | | | | **At 30 June 2024**/31 December 2023 | | | | | |
| **Assets** | | | | | | | | | | |
| Financial investments at fair value through other comprehensive income | **355,679** | 146,318 | **–** | – | **719,236** | 645,290 | **–** | 43,354 | **–** | – |
| Derivative financial instruments | **147,828** | 159,935 | **–** | – | **15,779** | 37,222 | **–** | – | **–** | – |
| Other receivables | **34,428** | 20,217 | **–** | 1,655 | **30,915** | 37,651 | **2,843** | 3,474 | **–** | – |
| **Liabilities** | | | | | | | | | | |
| Derivative financial instruments | **53,063** | 151,751 | **–** | – | **479** | 14,093 | **–** | – | **–** | – |
| Other payables | **14,992** | 8,874 | **1,091,759** | 9,927 | **56,848** | 93,558 | **24,234** | 30,287 | **–** | – |
| Lease liabilities | **–** | – | **–** | – | **333** | 1,320 | **3,270** | 5,068 | **–** | – |
| **Lending activities:** | | | | | | | | | | |
| At 30 June/31 December | **1,947,438** | 3,513,333 | **–** | – | **4,665,914** | 6,198,069 | **2,811,568** | 2,816,271 | **–** | – |
| Average for the period/year | 1,996,384 | 1,742,979 | **–** | – | **5,285,043** | 6,712,446 | **2,815,749** | 2,333,294 | **–** | – |
| **Acceptance of deposits:** | | | | | | | | | | |
| At 30 June/31 December | **2,360,329** | 1,120,939 | **255,539** | 1,315,364 | **6,146,766** | 8,221,171 | **2,582,871** | 2,778,825 | **–** | 1,227 |
| Average for the period/year | 2,242,188 | 826,171 | **963,988** | 2,434,619 | **6,459,173** | 3,936,225 | **2,583,017** | 4,608,715 | **–** | 14,759 |
| | | | | | **At 30 June 2024**/31 December 2023 | | | | | |
| **Off-statement of financial position items** | | | | | | | | | | |
| Acceptances, guarantees and letters of credit – contract amounts payable | **–** | – | **–** | – | **3,000** | 3,000 | **–** | – | **–** | – |
| Other commitments | **–** | – | **–** | – | **2,436,268** | 628,410 | **452,863** | 452,934 | **–** | – |
| Derivative financial instruments – notional amounts | **27,819,708** | 17,913,297 | **–** | – | **13,247,213** | 3,920,600 | **–** | – | **–** | – |

*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 2024 were similar in nature to those disclosed in the 2023 Annual Report. There were no changes in the relevant transactions described in the 2023 Annual Report that have had a material effect on the financial position or performance of the Group in the first half of 2024.

## (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 2024 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 | **3,797,089** | **–** | **3,797,089** | **–** |
| Derivative financial instruments | | | | |
| – Positive fair value of derivatives | **18,139,810** | **763** | **18,139,047** | **–** |
| Financial investments | | | | |
| – At fair value through profit or loss | | | | |
| – Certificates of deposit held | **136,824** | **–** | **136,824** | **–** |
| – Other debt securities | **989,821** | **943,259** | **46,562** | **–** |
| – Other investment | **1,383,389** | **–** | **–** | **1,383,389** |
| – Equity securities | **1,489** | **1,489** | **–** | **–** |
| | **2,511,523** | **944,748** | **183,386** | **1,383,389** |
| – At fair value through other comprehensive income | | | | |
| – Certificates of deposit held | **10,204,174** | **1,641,072** | **8,563,102** | **–** |
| – Treasury bills | **40,491,130** | **40,491,130** | **–** | **–** |
| – Other debt securities | **76,396,558** | **66,387,798** | **9,994,617** | **14,143** |
| – Equity securities | **78,279** | **–** | **–** | **78,279** |
| | **127,170,141** | **108,520,000** | **18,557,719** | **92,422** |
| Loan and advance to customers | **9,749,301** | **–** | **–** | **9,749,301** |
| | **161,367,864** | **109,465,511** | **40,677,241** | **11,225,112** |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| – Short sales of debt securities | **232,106** | **232,106** | **–** | **–** |
| Financial assets sold under repurchase agreements | | | | |
| – At fair value through profit or loss | **3,068,682** | **–** | **3,068,682** | **–** |
| Derivative financial instruments | | | | |
| – Negative fair value of derivatives | **17,171,216** | **1,412** | **17,169,804** | **–** |
| | **20,472,004** | **233,518** | **20,238,486** | **–** |

(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 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 | 3,101,202 | – | 3,101,202 | – |
| Derivative financial instruments | | | | |
| – Positive fair value of derivatives | 19,414,161 | 239 | 19,413,922 | – |
| Financial investments | | | | |
| – At fair value through profit or loss | | | | |
| – Other debt securities | 1,060,285 | 1,027,848 | 32,437 | – |
| – Other investment | 1,388,932 | – | – | 1,388,932 |
| | 2,449,217 | 1,027,848 | 32,437 | 1,388,932 |
| – At fair value through other comprehensive income | | | | |
| – Certificates of deposit held | 5,216,357 | 1,020,428 | 4,195,929 | – |
| – Treasury bills | 64,767,618 | 64,767,618 | – | – |
| – Other debt securities | 58,732,952 | 48,458,284 | 10,246,338 | 28,330 |
| – Equity securities | 75,817 | – | – | 75,817 |
| | 128,792,744 | 114,246,330 | 14,442,267 | 104,147 |
| Loan and advance to customers | 5,435,290 | – | – | 5,435,290 |
| | 159,192,614 | 115,274,417 | 36,989,828 | 6,928,369 |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| –Short sales of debt securities | 8,583 | 8,583 | – | – |
| Financial assets sold under repurchase agreements | | | | |
| – at fair value through profit or loss | 2,835,191 | – | 2,835,191 | – |
| Derivative financial instruments | | | | |
| – Negative fair value of derivatives | 19,408,277 | 622 | 19,407,655 | – |
| | 22,252,051 | 9,205 | 22,242,846 | – |

During six months ended 30 June 2024 and year ended 31 December 2023, 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 | i) Forecasted cash flows<br>ii) the discount rate |
| Equity securities | Dividend growth model | i) Forecasted dividend<br>ii) the discount rate |
| Other investment | Discounted cash flow model | i) Value of the invested property<br>ii) the discount rate |
| Loans and advances to customers | Discounted cash flow model | Loan obligor's credit spread level |

*Note:*

Debt securities, equity securities, loans and advances to customers and other accounts and other investment under Level 3 fair value measurements are generally classified as financial assets at fair value through profit or loss or financial investments 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 assets at fair value through profit or loss | | Financial investments at fair value through other comprehensive income | | Total |
|---|---|---|---|---|---|
| **Assets** | **Loan and advance to customers** *HK$'000* | **Other investment** *HK$'000* | **Other debt securities** *HK$'000* | **Equity securities** *HK$'000* | *HK$'000* |
| **At 1 January 2024** | 5,435,290 | 1,388,932 | 28,330 | 75,817 | 6,928,369 |
| Purchases/addition | 4,248,482 | – | – | – | 4,248,482 |
| Reclassification | – | – | 1,937 | – | 1,937 |
| Sales/settlement | – | – | (2,062) | (252) | (2,314) |
| Gains/(losses) recognised in the consolidated income statement | 65,529 | (5,543) | (3) | (19) | 59,964 |
| (Losses)/gains recognised in other comprehensive income | – | – | (14,059) | 2,733 | (11,326) |
| **At 30 June 2024** | 9,749,301 | 1,383,389 | 14,143 | 78,279 | 11,225,112 |
| Total gains for the period included in the consolidated income statement for assets held at the end of the reporting period recorded in: | | | | | |
| – Losses from dealing in foreign currencies | (9,877) | (48,608) | (3) | (19) | (58,507) |
| – Gains less losses from financial assets at fair value through profit or loss | 75,406 | 43,065 | – | – | 118,471 |
| Total (losses)/gains recognised in other comprehensive income | – | – | (14,059) | 2,733 | (11,326) |

## (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 assets at fair value through profit or loss | | Financial investments at fair value through other comprehensive income | | Total |
|---|---|---|---|---|---|
| Assets | Loan and advance to customers *HK$'000* | Other investment *HK$'000* | Other debt securities *HK$'000* | Equity securities *HK$'000* | *HK$'000* |
| At 1 January 2023 | 3,768,163 | – | 15,720 | 119,429 | 3,903,312 |
| Purchases | 1,630,216 | – | – | – | 1,630,216 |
| Reclassification | – | 1,413,188 | – | – | 1,413,188 |
| Transfer from Level 1 | – | – | 12,945 | – | 12,945 |
| Sales/settlement | – | – | (3,519) | (44,441) | (47,960) |
| Gains/(losses) recognised in the consolidated income statement | 36,911 | (24,256) | 16 | 21 | 12,692 |
| Gains recognised in other comprehensive income | – | – | 3,168 | 808 | 3,976 |
| At 31 December 2023 | 5,435,290 | 1,388,932 | 28,330 | 75,817 | 6,928,369 |
| 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 from dealing in foreign currencies | 8,578 | – | 16 | 21 | 8,615 |
| – Gains less losses from financial assets at fair value through profit or loss | 28,333 | (24,256) | – | – | 4,077 |
| Total gains recognised in other comprehensive income | – | – | 3,168 | 808 | 3,976 |

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

**(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 2024 and 31 December 2023 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; financial assets held under resale agreement; loans and advances to customers; derivative financial instruments; financial investments at fair value through profit or loss; financial investments at fair value through other comprehensive income and financial investments at amortised cost.

The fair values of balances with banks and central bank and placements with and advances to banks and financial assets held under resale agreements 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.

***(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 2024 and 31 December 2023, except the following:

| | **At 30 June 2024** | | | | |
|---|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Level 1** | **Level 2** | **Level 3** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| **Financial liabilities** | | | | | |
| Loan capital | **3,895,231** | **4,016,662** | **4,016,662** | **–** | **–** |

| | At 31 December 2023 | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Fair value | Level 1 | Level 2 | Level 3 |
| | HK$'000 | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Financial liabilities** | | | | | |
| Loan capital | 7,806,176 | 7,912,677 | 7,912,677 | – | – |

## (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 2024 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 15,135,509 | 14,544,360 | – | – | – | – | – | 591,149 |
| Placements with and advances to banks | 42,241,652 | – | 20,110,197 | 12,254,591 | 9,486,465 | 390,399 | – | – |
| Financial assets held under resale agreements | | | | | | | | |
| – at fair value through profit or loss | 3,797,089 | – | 2,631,298 | 24 | 1,165,767 | – | – | – |
| – at amortised cost | 4,500,721 | – | 4,500,721 | – | – | – | – | – |
| Derivative financial instruments | 18,139,810 | – | 2,732,591 | 2,653,441 | 3,915,374 | 6,822,610 | 2,015,794 | – |
| Financial investments | | | | | | | | |
| – at fair value through profit or loss | 2,511,523 | – | 86,536 | 42,561 | 172,074 | 605,449 | 220,025 | 1,384,878 |
| – at fair value through other comprehensive income | 127,170,141 | – | 3,908,418 | 15,111,573 | 50,555,764 | 55,641,468 | 1,864,496 | 88,422 |
| Loans and advances to customers and other accounts | | | | | | | | |
| – at fair value through profit or loss | 9,749,301 | 165,000 | 72,224 | 798,376 | 1,758,027 | 6,852,091 | – | 103,583 |
| – at amortised cost | 234,056,521 | 1,358,160 | 33,831,104 | 28,738,085 | 63,823,502 | 60,446,906 | 33,126,952 | 12,731,812 |
| Tax recoverable | 9,296 | – | – | – | 9,296 | – | – | – |
| Right-of-use assets | 873,476 | – | – | – | – | – | – | 873,476 |
| Property and equipment | 979,807 | – | – | – | – | – | – | 979,807 |
| Intangible assets | 428,721 | – | – | – | – | – | – | 428,721 |
| Deferred tax assets | 125,824 | – | – | – | – | – | – | 125,824 |
| **Total assets** | 459,719,391 | 16,067,520 | 67,873,089 | 59,598,651 | 130,886,269 | 130,758,923 | 37,227,267 | 17,307,672 |
| **Liabilities** | | | | | | | | |
| Deposits and balances of banks and other financial institutions | 9,890,369 | 1,275,717 | 5,676,540 | 2,467,474 | 470,638 | – | – | – |
| Deposits from customers | 334,578,409 | 98,134,918 | 79,234,656 | 97,941,929 | 58,082,162 | 1,184,744 | – | – |
| Financial liabilities at fair value through profit or loss | 232,106 | – | – | – | – | 84,529 | 147,577 | – |
| Financial assets sold under repurchase agreements | | | | | | | | |
| – at fair value through profit or loss | 3,068,682 | – | 1,903,270 | 9 | 1,165,403 | – | – | – |
| – at amortised cost | 16,699,616 | – | 15,968,182 | 731,434 | – | – | – | – |
| Derivative financial instruments | 17,171,216 | – | 2,598,994 | 2,311,531 | 3,693,372 | 6,556,264 | 2,011,055 | – |
| Certificates of deposit issued | 1,093,118 | – | 312,320 | 390,399 | 390,399 | – | – | – |
| Current taxation | 245,505 | – | – | – | 245,505 | – | – | – |
| Other liabilities | 17,391,903 | 451,156 | 9,252,319 | 2,814,178 | 3,156,424 | 341,345 | 19,633 | 1,356,848 |
| Lease liabilities | 988,540 | – | 20,913 | 35,735 | 156,317 | 465,986 | 309,589 | – |
| Loan capital | 3,895,231 | – | – | – | – | 3,895,231 | – | – |
| Deferred tax liabilities | 1,776 | – | – | – | – | – | – | 1,776 |
| **Total liabilities** | 405,256,471 | 99,861,791 | 114,967,194 | 106,692,689 | 67,360,220 | 12,528,099 | 2,487,854 | 1,358,624 |
| **Asset-liability gap** | | (83,794,271) | (47,094,105) | (47,094,038) | 63,526,049 | 118,230,824 | 34,739,413 | |

## (34) MATURITY PROFILE (CONTINUED)

| | At 31 December 2023 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total<br>*HK$'000* | Repayable on demand<br>*HK$'000* | Within 1 month<br>*HK$'000* | 3 months or less over but over 1 month<br>*HK$'000* | 1 year or less but over 3 months<br>*HK$'000* | 5 years or less but over 1 year<br>*HK$'000* | Over 5 years<br>*HK$'000* | Undated (note)<br>*HK$'000* |
| **Assets** | | | | | | | | |
| Cash and balances with banks and central banks | 16,931,919 | 16,193,795 | – | – | – | – | – | 738,124 |
| Placements with and advances to banks | 55,052,186 | – | 28,995,932 | 9,189,148 | 16,867,106 | – | – | – |
| Financial assets held under resale agreements | – | | | | | | | |
| – at fair value through profit or loss | 3,101,202 | – | 2,055,181 | 1,046,021 | – | – | – | – |
| – at amortised cost | 4,592,502 | – | 4,592,502 | – | – | – | – | – |
| Derivative financial instruments | 19,414,161 | – | 3,181,797 | 3,221,041 | 4,025,676 | 7,013,645 | 1,972,002 | – |
| Financial investments | | | | | | | | |
| – at fair value through profit or loss | 2,449,217 | – | 29,612 | 50,278 | 141,569 | 750,945 | 87,881 | 1,388,932 |
| – at fair value through other comprehensive income | 128,792,744 | – | 14,476,080 | 28,775,839 | 44,156,669 | 40,848,699 | 435,309 | 100,148 |
| Loans and advances to customers and other accounts | – | | | | | | | |
| – at fair value through profit or loss | 5,435,290 | 8,220 | 87,742 | 96,900 | 1,968,150 | 3,245,946 | – | 28,332 |
| – at amortised cost | 232,067,544 | 2,500,477 | 25,643,698 | 28,498,342 | 76,951,706 | 50,825,740 | 33,579,026 | 14,068,555 |
| Tax recoverable | 9,582 | – | – | – | 9,582 | – | – | – |
| Right-of-use assets | 979,571 | – | – | – | – | – | – | 979,571 |
| Property and equipment | 972,680 | – | – | – | – | – | – | 972,680 |
| Intangible assets | 401,188 | – | – | – | – | – | – | 401,188 |
| Deferred tax assets | 187,145 | – | – | – | – | – | – | 187,145 |
| **Total assets** | 470,386,931 | 18,702,492 | 79,062,544 | 70,877,569 | 144,120,458 | 102,684,975 | 36,074,218 | 18,864,675 |
| **Liabilities** | | | | | | | | |
| Deposits and balances of banks and other financial institutions | 11,531,352 | 1,295,867 | 7,754,212 | 2,343,737 | 137,536 | – | – | – |
| Deposits from customers | 340,730,699 | 85,216,933 | 91,700,636 | 126,169,195 | 36,268,131 | 1,375,804 | – | – |
| Financial liabilities at fair value through profit or loss | 8,583 | – | – | – | – | 8,583 | – | – |
| Financial assets sold under repurchase agreements | | | | | | | | |
| – at fair value through profit or loss | 2,835,191 | – | 1,788,381 | 1,046,810 | – | – | – | – |
| – at amortised cost | 16,300,747 | – | 14,064,606 | 2,236,141 | – | – | – | – |
| Derivative financial instruments | 19,408,277 | – | 3,235,522 | 3,506,175 | 3,939,641 | 6,754,591 | 1,972,348 | – |
| Certificates of deposit issued | 1,561,841 | – | – | 1,249,473 | 312,368 | – | – | – |
| Current taxation | 209,146 | – | – | – | 209,146 | – | – | – |
| Other liabilities | 15,401,974 | 432,904 | 6,358,910 | 4,009,991 | 2,344,689 | 293,775 | 19,730 | 1,941,975 |
| Lease liabilities | 1,075,740 | – | 14,851 | 31,359 | 151,758 | 519,005 | 358,767 | – |
| Loan capital | 7,806,176 | – | – | 3,903,198 | – | 3,902,978 | – | – |
| Deferred tax liabilities | 1,194 | – | – | – | – | – | – | 1,194 |
| **Total liabilities** | 416,870,920 | 86,945,704 | 124,917,118 | 144,496,079 | 43,363,269 | 12,854,736 | 2,350,845 | 1,943,169 |
| **Asset-liability gap** | | (68,243,212) | (45,854,574) | (73,618,510) | 100,757,189 | 89,830,239 | 33,723,373 | |

*Note:*

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

## (35) CREDIT RELATED COMMITMENTS AND FINANCIAL GUARANTEES, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Credit related commitments and financial guarantees, other commitments and contingent liabilities

The following is a summary of the contractual amounts of each significant class of credit related commitments and financial guarantees, other commitments and contingent liabilities:

| | **At 30 June 2024** *HK$'000* | At 31 December 2023 *HK$'000* |
|---|---|---|
| Direct credit substitutes | **1,210,100** | 449,180 |
| Transaction-related contingencies | **923,246** | 957,848 |
| Trade-related contingencies | **7,900,555** | 10,225,885 |
| Forward forward deposits placed | **57,467** | 122,761 |
| Other commitments: | | |
| – which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower | **120,558,089** | 120,841,630 |
| – with an original maturity of not more than 1 year | **2,113,882** | 3,612,805 |
| – with an original maturity of more than 1 year | **9,275,944** | 10,065,860 |
| | **142,039,283** | 146,275,969 |
| Credit risk-weighted amounts | **7,633,964** | 7,925,419 |

Credit-related instruments 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 default. As the facilities may expire without being drawn upon, the contract 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 2023: 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 2024 and 31 December 2023 not provided for in the financial statements.

| | **At 30 June 2024** *HK$'000* | At 31 December 2023 *HK$'000* |
|---|---|---|
| Authorised and contracted for | **98,003** | 159,326 |

### (c) Contingent liability in respect of legal claim

The Group was not involved in any legal action that would be significant to the financial position of the Group as at 30 June 2024 and 31 December 2023.

## 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 2024** *HK$'000* | At 31 December 2023 *HK$'000* |
|---|---|---|
| Loans and advances to customers | **229,496,925** | 226,286,266 |
| Expected credit losses on loans and advances to customers | **1,694,804** | 1,193,248 |
| Total assets | **459,719,391** | 470,386,931 |
| Total customers deposits (including certificates of deposit issued) | **335,671,527** | 342,292,540 |
| Total equity | **54,462,920** | 53,516,011 |
| Financial ratios | | |
| Common Equity Tier 1 ("CET1") capital ratio | **13.3%** | 13.4% |
| Tier 1 capital ratio | **16.3%** | 16.4% |
| Total capital ratio | **18.7%** | 20.1% |
| Loans to deposits | **68.4%** | 66.1% |
| Loans to total assets | **49.9%** | 48.1% |
| Cost to income (for the half-year ended) | **36.4%** | 42.2% |

### (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 2024** *HK$'000* | At 31 December 2023 *HK$'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 | **26,390,845** | 25,588,691 |
| Disclosed reserves | **338,609** | 194,057 |
| **CET1 capital before regulatory deductions** | **44,788,307** | 43,841,601 |
| **CET1 capital: regulatory deductions** | | |
| Deferred tax assets in excess of deferred tax liabilities | **125,824** | 187,145 |
| Other intangible assets (net of related deferred tax liability) | **428,721** | 401,188 |
| Cumulative fair value gains arising from the revaluation of land and buildings (own use and investment properties) | **294,894** | 294,930 |
| Regulatory reserve for general banking risks | **2,582,480** | 2,219,486 |
| Valuation adjustments | **21,116** | 50,357 |
| Debit valuation adjustments in respect of derivative contracts | **3,715** | 3,538 |
| **Total regulatory deductions to CET1 capital** | **3,456,750** | 3,156,644 |
| **CET1 capital** | **41,331,557** | 40,684,957 |
| **Additional Tier 1 ("AT1") capital** | | |
| AT1 capital | **9,335,396** | 9,335,396 |
| **Tier 1 capital** | **50,666,953** | 50,020,353 |
| **Tier 2 capital instruments and provisions** | | |
| Qualifying Tier 2 capital instruments plus any related share premium | **3,903,993** | 7,809,206 |
| Reserve attributable to fair value gains on revaluation of holdings of land and buildings | **132,702** | 132,719 |
| Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital | **3,330,135** | 3,287,942 |
| **Tier 2 capital base before deductions** | **7,366,830** | 11,229,867 |
| **Tier 2 capital: regulatory deductions** | | |
| Regulatory deductions to Tier 2 capital | **–** | – |
| **Tier 2 capital** | **7,366,830** | 11,229,867 |
| **Total capital** | **58,033,783** | 61,250,220 |

#### (ii) Risk-weighted assets

| | | |
|---|---|---|
| – Credit risk | **276,298,194** | 270,835,420 |
| – Market risk | **16,717,600** | 16,806,075 |
| – Operational risk | **17,262,738** | 16,669,988 |
| | **310,278,532** | 304,311,483 |

## (C) CAPITAL ADEQUACY (CONTINUED)

### (iii) Capital adequacy ratios

| | **At 30 June 2024** | At 31 December 2023 |
|---|---|---|
| – CET1 capital ratio | **13.3%** | 13.4% |
| – Tier 1 capital ratio | **16.3%** | 16.4% |
| – Total capital ratio | **18.7%** | 20.1% |

### (iv) Capital instruments

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

| | **At 30 June 2024** ***HK$'000*** | At 31 December 2023 *HK$'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 2024** ***HK$'000*** | At 31 December 2023 *HK$'000* |
|---|---|---|
| **Additional Tier 1 Capital Securities** | | |
| 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 |
| | **9,335,396** | 9,335,396 |

| | **At 30 June 2024** ***HK$'000*** | At 31 December 2023 *HK$'000* |
|---|---|---|
| **Tier 2 capital instruments** | | |
| Issued by the Bank | | |
| – US$500 million Subordinated Fixed Rate Notes at 4.625% (due in 2029) | **–** | 3,903,198 |
| – US$500 million Subordinated Fixed Rate Notes at 6.00% (due in 2033) | **3,895,231** | 3,902,978 |
| | **3,895,231** | 7,806,176 |

## (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 2024 | |
|---|---|---|---|
| **Names of subsidiaries** | **Principal activities** | **Total assets** ***HK$'000*** | **Total equity** ***HK$'000*** |
| Carford International Limited | Property holding | **23,279** | **11,633** |
| CITIC Bank International (China) Limited | Banking | **20,181,442** | **1,743,222** |
| CITIC Insurance Brokers Limited | Insurance broker | **673,074** | **625,379** |
| HKCB Finance Limited | Consumer financing | **6,128,558** | **309,847** |
| The Ka Wah Bank (Trustee) Limited | Trustee services | **2,901** | **2,901** |

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 2024 | |
|---|---|---|---|
| **Names of subsidiaries** | **Principal activities** | **Total assets** ***HK$'000*** | **Total equity** ***HK$'000*** |
| The Hongkong Chinese Bank (Nominees) Limited | Nominee services | **4** | **4** |
| The Ka Wah Bank (Nominees) Limited | Nominee services | **113** | **–** |
| Security Nominees Limited | Nominee services | **–** | **–** |
| CNCBI Asset Management Limited | Inactive | **8,954** | **8,841** |
| CNCBI Trustee Limited | Trustee services | **10,140** | **8,249** |

For all subsidiaries included in both the accounting and regulatory scope of consolidation, the same consolidation methodology is applied at 30 June 2024 and 31 December 2023.

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 2024** | | | | | |
|---|---|---|---|---|---|---|
| | **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 | **157,510,694** | **5,877,895** | **4,310,250** | **185,864** | **70,974** | **806,253** |
| Mainland China | **43,137,016** | **834,796** | **988,901** | **143,920** | **15,367** | **75,990** |
| United States | **10,338,752** | **289,662** | **289,662** | **37,186** | **93,255** | **28,000** |
| Singapore | **7,815,184** | **207,846** | **251,781** | **27,247** | **–** | **111,892** |
| Others | **10,695,279** | **75,734** | **81,226** | **18,721** | **45,304** | **34,831** |
| | **229,496,925** | **7,285,933** | **5,921,820** | **412,938** | **224,900** | **1,056,966** |

| | At 31 December 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 | 159,004,495 | 3,139,502 | 3,716,065 | 164,664 | 344,564 | 195,537 |
| Mainland China | 36,274,617 | 481,778 | 599,441 | 70,682 | 169,881 | 2,957 |
| United States | 10,364,300 | 580,515 | 580,515 | 50,762 | 19,370 | – |
| Singapore | 7,471,950 | 244,140 | 244,140 | 18,046 | 73,898 | 26,179 |
| Others | 13,170,904 | 2,567 | 27,259 | 19,939 | 36,769 | – |
| | 226,286,266 | 4,448,502 | 5,167,420 | 324,093 | 644,482 | 224,673 |

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 2024 | | At 31 December 2023 | |
|---|---|---|---|---|
| | ***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 | **770,298** | **0.34** | 631,341 | 0.28 |
| – 1 year or less but over 6 months | **3,310,626** | **1.44** | 1,322,114 | 0.58 |
| – over 1 year | **3,205,009** | **1.40** | 2,495,047 | 1.10 |
| | **7,285,933** | **3.18** | 4,448,502 | 1.96 |
| Secured overdue loans and advances | **3,699,503** | | 3,136,342 | |
| Unsecured overdue loans and advances | **3,586,430** | | 1,312,160 | |
| | **7,285,933** | | 4,448,502 | |
| Market value of collateral held against the secured overdue loans and advances | **6,460,220** | | 5,193,325 | |
| Expected credit losses allowances | **1,001,880** | | 197,775 | |

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 2024 and 31 December 2023.

**Other overdue assets**

There was financial investments at fair value through other comprehensive income amounted HK$25,825,000, which were overdue for over three months as at 30 June 2024 (31 December 2023: HK$43,363,000).

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### (F) RESCHEDULED LOANS

| | **At 30 June 2024** | | At 31 December 2023 | |
|---|---|---|---|---|
| | ***HK$'000*** | **% of total loans and advances to customers** | *HK$'000* | % of total loans and advances to customers |
| Rescheduled loans | **52,794** | **0.023** | 154,445 | 0.068 |

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 2024 and 31 December 2023.

### (G) REPOSSESSED ASSETS

| | **At 30 June 2024** ***HK$'000*** | At 31 December 2023 *HK$'000* |
|---|---|---|
| Included in loans and advances to customers and other accounts | **419,944** | 285,257 |

The amounts represent the estimated market value of the repossessed assets at 30 June 2024 and 31 December 2023.

## (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 2024** | | | | |
|---|---|---|---|---|---|
| | | | **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 | **38,174,198** | **18,830,236** | **2,863,874** | **6,190,812** | **66,059,120** |
| Offshore centres | **13,214,753** | **419,852** | **29,694,420** | **43,284,152** | **86,613,177** |
| of which Hong Kong | **4,963,164** | **419,228** | **26,100,080** | **33,924,512** | **65,406,984** |
| Developing Asia-Pacific | **43,586,173** | **3,678,010** | **7,782,391** | **34,600,528** | **89,647,102** |
| of which Mainland China | **36,836,133** | **3,677,585** | **6,822,614** | **29,830,111** | **77,166,443** |

| | At 31 December 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 | 35,366,170 | 28,616,141 | 1,953,132 | 3,742,970 | 69,678,413 |
| Offshore centres | 13,182,262 | 429,752 | 25,379,500 | 44,945,252 | 83,936,766 |
| of which Hong Kong | 3,572,608 | 429,223 | 22,464,099 | 33,528,626 | 59,994,556 |
| Developing Asia-Pacific | 45,466,135 | 2,515,369 | 5,109,123 | 30,458,781 | 83,549,408 |
| of which Mainland China | 41,119,763 | 2,514,485 | 4,751,233 | 26,484,499 | 74,869,980 |

## 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 2024** | | |
|---|---|---|---|
| | **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) | **47,782,331** | **3,719,270** | **51,501,601** |
| (2) Local governments, local government-owned entities and their subsidiaries and JVs | **22,202,875** | **1,178,603** | **23,381,478** |
| (3) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs | **31,793,547** | **3,272,760** | **35,066,307** |
| (4) Other entities of central government not reported in item 1 above | **3,464,257** | **607,467** | **4,071,724** |
| (5) Other entities of local governments not reported in item 2 above | **800,935** | **–** | **800,935** |
| (6) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China | **20,783,998** | **2,157,941** | **22,941,939** |
| (7) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures | **6,270,840** | **133,403** | **6,404,243** |
| **Total** | **133,098,783** | **11,069,444** | **144,168,227** |
| **Total assets after provision** | **436,853,615** | | |
| **On-balance sheet exposures as percentage of total assets** | **30.5%** | | |

| | At 31 December 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) | 41,070,652 | 1,880,540 | 42,951,192 |
| (2) Local governments, local government-owned entities and their subsidiaries and JVs | 19,155,037 | 2,359,642 | 21,514,679 |
| (3) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs | 31,897,446 | 4,409,326 | 36,306,772 |
| (4) Other entities of central government not reported in item 1 above | 3,185,422 | 593,691 | 3,779,113 |
| (5) Other entities of local governments not reported in item 2 above | 1,183,888 | – | 1,183,888 |
| (6) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China | 22,779,817 | 1,453,676 | 24,233,493 |
| (7) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures | 6,420,088 | 147,011 | 6,567,099 |
| Total | 125,692,350 | 10,843,886 | 136,536,236 |
| Total assets after provision | 444,615,600 | | |
| On-balance sheet exposures as percentage of total assets | 28.3% | | |

## (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 first half of 2024, 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 2024** *HK$'000* | At 31 December 2023 *HK$'000* |
|---|---|---|
| Cash and balances with banks and central banks | **14,911,364** | 16,665,546 |
| Placements with and advances to banks | **42,241,652** | 55,052,186 |
| Financial assets held under resale agreements | **8,297,810** | 7,693,704 |
| Derivative financial instruments | **18,139,810** | 19,414,161 |
| Financial investments | | |
| – at fair value through profit or loss | **2,510,034** | 2,449,217 |
| – at fair value through other comprehensive income | **127,091,862** | 128,716,927 |
| Loans and advances to customers and other accounts | **243,220,071** | 237,096,801 |
| Financial guarantees and other credit-related contingent liabilities | **10,091,368** | 11,755,674 |
| Loan commitments and other credit-related commitments | **131,947,915** | 134,520,295 |
| | **598,451,886** | 613,364,511 |

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 2024** | | | |
|---|---|---|---|---|
| | | **Related amounts that are not offset in the consolidated statement of financial position** | | |
| | **Derivative financial instruments presented in the consolidated statement of financial position** *HK$'000* | **Financial instruments** *HK$'000* | **Cash collateral received** *HK$'000* | **Net amount** *HK$'000* |
| **Financial assets** | | | | |
| – Derivative financial instruments | **18,139,810** | **(6,439,964)** | **(811,643)** | **10,888,203** |
| **Financial liabilities** | | | | |
| – Derivative financial instruments | **17,171,216** | **(6,439,964)** | **–** | **10,731,252** |

## (J) RISK MANAGEMENT (CONTINUED)

### (a) Credit risk management (continued)

#### *(iii) Master netting arrangement (continued)*

| | At 31 December 2023 | | | |
|---|---|---|---|---|
| | 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 | 19,414,161 | (7,235,818) | (1,602,063) | 10,576,280 |
| Financial liabilities | | | | |
| – Derivative financial instruments | 19,408,277 | (7,235,818) | – | 12,172,459 |

#### *(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 2024 and 31 December 2023, excluding impaired exposure, is broken down as follows:

| | **At 30 June 2024** | At 31 December 2023 |
|---|---|---|
| | ***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 | **97,523,086** | 94,149,605 |
| – past due but not impaired | **6,338,408** | 8,264,051 |
| | **103,861,494** | 102,413,656 |

**(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. The amount recognized as ECL allowance for these assets is the change in lifetime ECL since initial recognition of the assets.

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 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. In consideration of deterioration of credit environment, management overlay was exercised to make extra HK$674 million ECL on top of the individual assessment results.

*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% (2023: 50%); the upside scenario, namely benign, represents likelihood of improvements to the current economic situation; carrying a weight of 10% (2023: 5%); and the downside scenarios, namely, mild, medium and severe represents the likelihood of economic downturn of different severities, carrying a weight of 10%, 15% and 10% (2023: 15%, 20% and 10%) 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 economic growth over the forecast period of 2024-2028. Global economic growth is unlikely to improve substantially in 2024, as a majority of economies remain hampered by somewhat tight financing conditions. Some developed economies may find support from loosening monetary policy by their respective central banks, whereas developing economies are likely to stay resilient with solid growth. The global economy is anticipated to gradually regain momentum in the subsequent years of the forecast period, assuming growth in developed economies will stabilize and improve amid continued easing of monetary policy by central banks.

Mainland China's economy is expected to stabilize and meet the growth target of about 5% in 2024, followed by moderating growth in the subsequent years of the forecast period. Mainland China's export trade could maintain growth throughout the forecast period despite heightened geopolitical tensions and potential trade conflicts. Meanwhile, domestic demand is anticipated to pick up gradually with the support of accommodative policy measures. Labour market conditions in Mainland China should improve with the unemployment rate edging lower on the back of sustained economic expansion.

Hong Kong's economy is expected to record slower growth in 2024, while steadily returning to its long-run growth path in the subsequent years of the forecast period. Hong Kong's export trade is likely to record sustained growth in the forecast period, thanks to favorable base effects from last year and close ties with Mainland China's robust supply chains. Private consumption will continue to be the growth driver of Hong Kong's economy and in spite of challenges faced by the retail sector. Labour market in Hong Kong will remain tight with the unemployment rate staying near cyclically low levels. Meanwhile, residential property market may remain under pressure in the near term, until Hong Kong dollar interest rates start falling as the US interest rate cut cycle begins.

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 suffers a considerable slowdown and is on the blink of a recession as major developed economies enter a deep downturn with still elevated interest rates environment and Mainland China's economic recovery stalls. GDP growth turns negative for most of the advanced economies, while economic growth in Mainland China and Hong Kong declines considerably. Consequently, financial markets experience a significant selloff with heightened volatilities exacerbated by geopolitical uncertainties, while unemployment rates worldwide 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.

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, debt securities and other exposures 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 includes 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 2024 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | 14,911,388 | – | – | – | 14,911,388 | (24) | 14,911,364 |
| Placements with and advances to banks at amortised cost *(Note iv)* | | | | | | | |
| – Stage 1 | 41,421,093 | 838,855 | – | – | 42,259,948 | (18,296) | 42,241,652 |
| Financial assets held under resale agreements at amortised cost *(Note iv)* | | | | | | | |
| – Stage 1 | 4,500,724 | – | – | – | 4,500,724 | (3) | 4,500,721 |
| Loans and advances to customers and other accounts at amortised cost | 152,337,727 | 62,847,924 | 13,695,344 | 7,277,763 | 236,158,758 | (2,687,988) | 233,470,770 |
| – Stage 1 | 152,033,234 | 62,028,983 | 8,689,777 | – | 222,751,994 | (413,241) | 222,338,753 |
| – Stage 2 | 304,493 | 818,941 | 5,005,567 | – | 6,129,001 | (224,900) | 5,904,101 |
| – Stage 3 | – | – | – | 7,277,763 | 7,277,763 | (2,049,847) | 5,227,916 |
| Loan commitments and financial guarantee contracts *(Note i)* | 13,183,698 | 127,876,097 | 306,636 | – | 141,366,431 | (91,189) | 141,275,242 |
| – Stage 1 | 13,183,698 | 127,876,097 | – | – | 141,059,795 | (79,807) | 140,979,988 |
| – Stage 2 | – | – | 306,636 | – | 306,636 | (11,382) | 295,254 |
| – Stage 3 | – | – | – | – | – | – | – |
| **Total** | 226,354,630 | 191,562,876 | 14,001,980 | 7,277,763 | 439,197,249 | (2,797,500) | 436,399,749 |
| Financial investments at fair value through other comprehensive income – Debt securities *(Note ii)* | 126,740,815 | 294,749 | – | 56,298 | 127,091,862 | (191,618) | |
| – Stage 1 | 126,740,815 | 294,749 | – | – | 127,035,564 | (24,459) | |
| – Stage 2 | – | – | – | – | – | – | |
| – Stage 3 | – | – | – | 13,321 | 13,321 | (167,159) | |
| – POCI | – | – | – | 42,977 | 42,977 | – | |
| **Total** | 126,740,815 | 294,749 | – | 56,298 | 127,091,862 | (191,618) | |

## (J) RISK MANAGEMENT (CONTINUED)

### (a) Credit risk management (continued)

#### *(vii) Credit quality of financial assets (continued)*

| | At 31 December 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 | 16,665,567 | – | – | – | 16,665,567 | (21) | 16,665,546 |
| Placements with and advances to banks at amortised cost *(Note iv)* | | | | | | | |
| – Stage 1 | 54,987,367 | 80,412 | – | – | 55,067,779 | (15,593) | 55,052,186 |
| Financial assets held under resale agreements at amortised cost *(Note iv)* | | | | | | | |
| – Stage 1 | 4,592,502 | – | – | – | 4,592,502 | – | 4,592,502 |
| Loans and advances to customers and other accounts at amortised cost | 150,035,707 | 67,047,440 | 10,604,796 | 5,979,978 | 233,667,921 | (2,006,410) | 231,661,511 |
| – Stage 1 | 149,680,020 | 66,097,128 | 4,578,000 | – | 220,355,148 | (324,697) | 220,030,451 |
| – Stage 2 | 355,687 | 950,312 | 6,026,796 | – | 7,332,795 | (644,482) | 6,688,313 |
| – Stage 3 | – | – | – | 5,979,978 | 5,979,978 | (1,037,231) | 4,942,747 |
| Loan commitments and financial guarantee contracts *(Note i)* | 10,134,106 | 135,564,427 | 48,538 | – | 145,747,071 | (83,661) | 145,663,410 |
| – Stage 1 | 10,134,106 | 135,564,427 | – | – | 145,698,533 | (82,361) | 145,616,172 |
| – Stage 2 | – | – | 48,538 | – | 48,538 | (1,300) | 47,238 |
| – Stage 3 | – | – | – | – | – | – | – |
| **Total** | 236,415,249 | 202,692,279 | 10,653,334 | 5,979,978 | 455,740,840 | (2,105,685) | 453,635,155 |
| Financial investments at fair value through other comprehensive income – Debt securities *(Note ii)* | 128,492,945 | 163,514 | 815 | 59,653 | 128,716,927 | (179,502) | |
| – Stage 1 | 128,492,945 | 163,514 | – | – | 128,656,459 | (14,856) | |
| – Stage 2 | – | – | – | – | – | – | |
| – Stage 3 | – | – | 815 | 24,331 | 25,146 | (164,646) | |
| – POCI | – | – | – | 35,322 | 35,322 | – | |
| **Total** | 128,492,945 | 163,514 | 815 | 59,653 | 128,716,927 | (179,502) | |

## (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 2024 and 31 December 2023.

#### *(viii) Credit quality of debt securities measured at FVPL and FVOCI*

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

| | **At 30 June 2024** | | |
|---|---|---|---|
| | **Debt securities measured at FVPL** *HK$'000* | **Debt securities measured at FVOCI** *HK$'000* | **Total** *HK$'000* |
| Aaa | **–** | **4,866,605** | **4,866,605** |
| Aa3 to Aa1 | **123,913** | **63,313,930** | **63,437,843** |
| A3 to A1 | **595,278** | **53,494,206** | **54,089,484** |
| Lower than A3 | **347,338** | **5,049,163** | **5,396,501** |
| | **1,066,529** | **126,723,904** | **127,790,433** |
| Unrated | **60,116** | **367,958** | **428,074** |
| Total | **1,126,645** | **127,091,862** | **128,218,507** |

**(J) RISK MANAGEMENT (CONTINUED)**

**(a) Credit risk management (continued)**

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

| | At 31 December 2023 | | |
|---|---|---|---|
| | Debt securities measured at FVPL *HK$'000* | Debt securities measured at FVOCI *HK$'000* | Total *HK$'000* |
| Aaa | – | 9,403,768 | 9,403,768 |
| Aa3 to Aa1 | 83,320 | 79,059,092 | 79,142,412 |
| A3 to A1 | 736,664 | 36,519,591 | 37,256,255 |
| Lower than A3 | 189,169 | 3,361,938 | 3,551,107 |
| | 1,009,153 | 128,344,389 | 129,353,542 |
| Unrated | 51,132 | 372,538 | 423,670 |
| Total | 1,060,285 | 128,716,927 | 129,777,212 |

**(b) Market risk management**

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

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

***Market risk framework***

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

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

## (J) RISK MANAGEMENT (CONTINUED)

### (b) Market risk management (continued)

***Methodology and characteristics of market risk model***

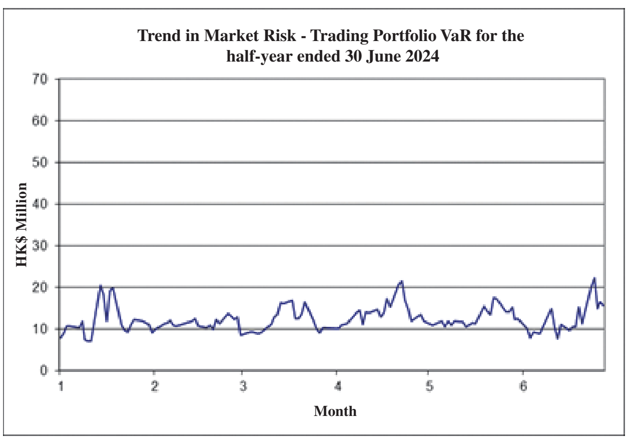
*Value-at-risk (“VaR”)*

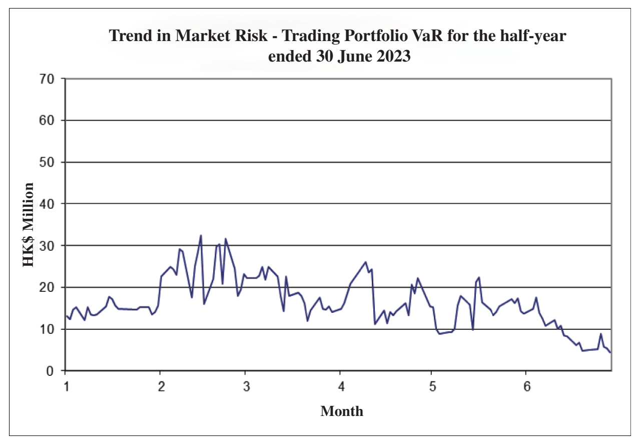
VaR is a technique in estimating the potential losses that could occur on market risk-taking positions due to market rates and prices movement under normal market conditions over a specified time horizon. The model is designed to capture different types of risk including interest rate risk, foreign exchange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

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

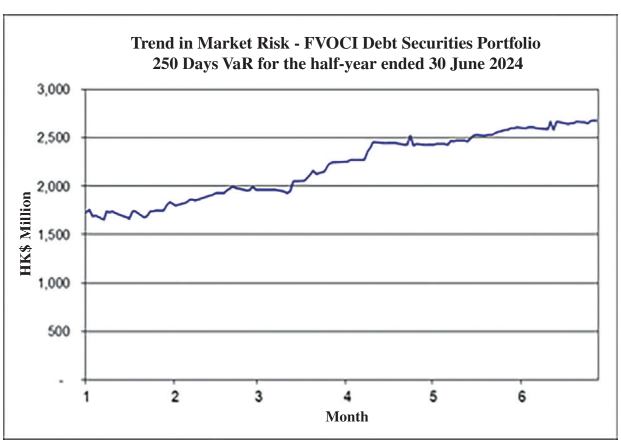
For the calculation of VaR, the Group uses the most recent two years of historical market rates, prices and volatilities.

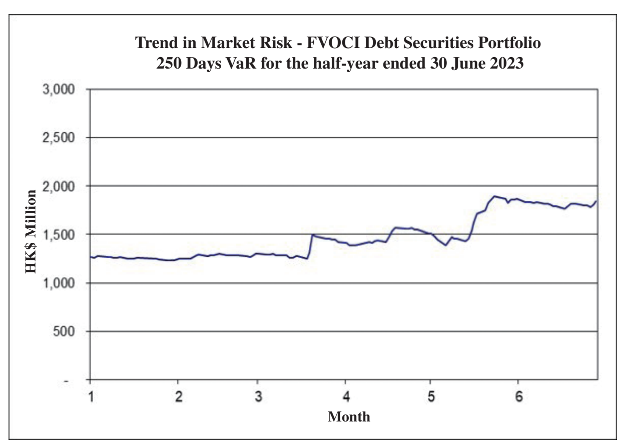
– For the trading positions, the VaR is calculated for one-day holding period.




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



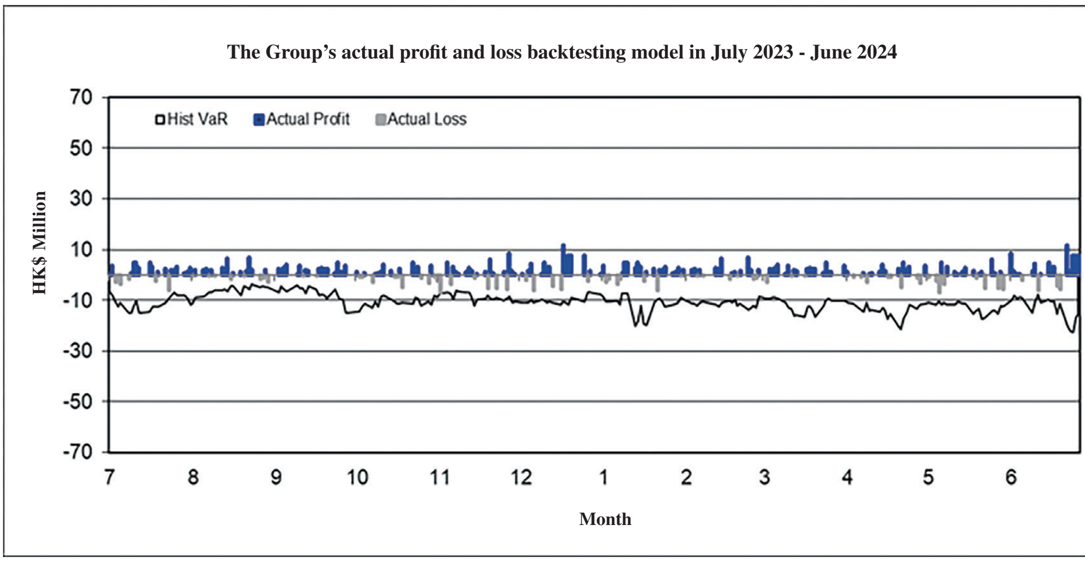
**(J) RISK MANAGEMENT (CONTINUED)**

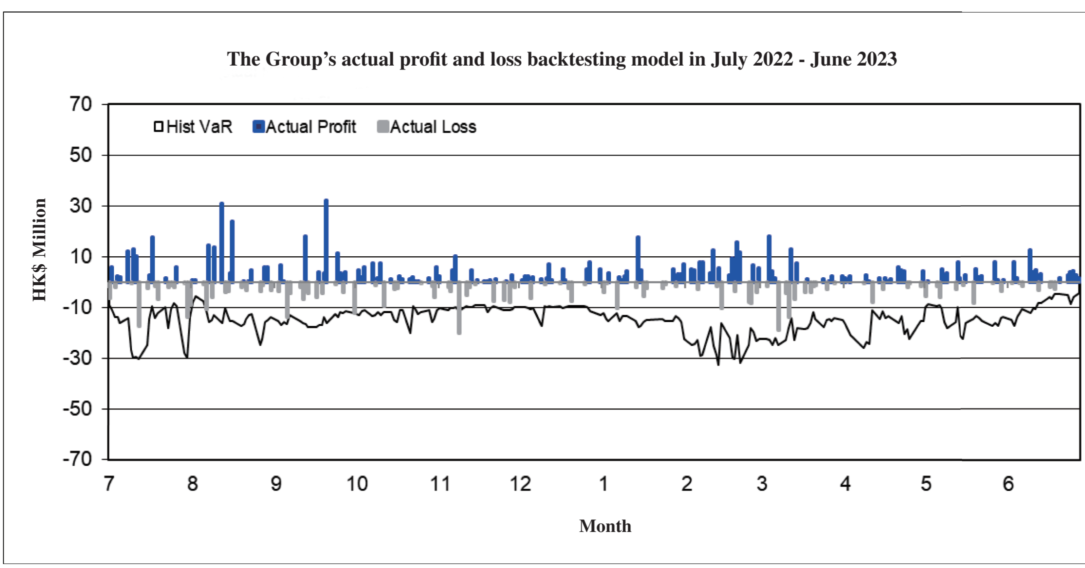
**(b) Market risk management (continued)**

***Methodology and characteristics of market risk model (continued)***

*Value-at-risk (“VaR”) (continued)*

– The Group back-tests the accuracy of its VaR model by comparing the actual and hypothetical daily profit and loss, adjusted for items including fees and commissions, against the corresponding VaR figures. For the period from 1 July 2023 to 30 June 2024, there was 0 exception in the back-testing results (for the period of 1 July 2022 to 30 June 2023, there was 2 exception), which corresponds to the green zone specified by the HKMA and the international Basel principles.



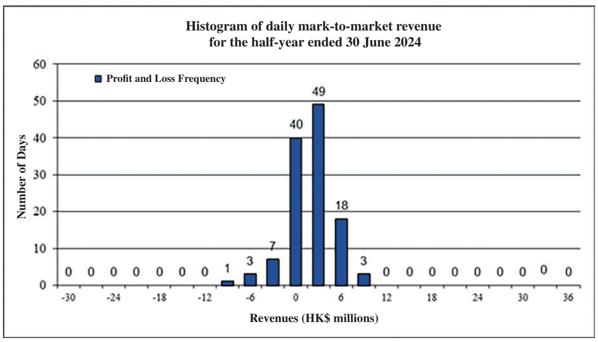
## (J) RISK MANAGEMENT (CONTINUED)

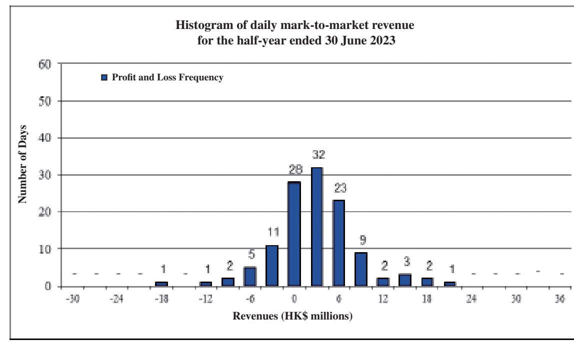
### (b) Market risk management (continued)

***Methodology and characteristics of market risk model (continued)***

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

For the six months ended 30 June 2024, the average daily mark-to-market revenue from the Group's trading portfolio was a gain of HK$427,000 (30 June 2023: gain of HK$1,255,000). The standard deviation of the daily revenue was HK$3,013,000 (30 June 2023: HK$5,670,000). The graphs below show the histograms of the Group's daily mark-to-market revenue for the period ended 30 June 2024 and 2023, 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 2024** | | | | Six months ended 30 June 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Approximate** | | | | Approximate | | | |
| | **maximum** | **minimum** | **mean** | **At 30 June 2024** | maximum | minimum | mean | At 30 June 2023 |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Foreign exchange risk | **16,030** | **3,439** | **6,964** | **11,109** | 26,116 | 2,610 | 9,376 | 3,354 |
| Interest rate risk and credit spread risk | **18,983** | **4,974** | **9,748** | **9,280** | 18,988 | 4,113 | 10,783 | 5,356 |
| Total VaR | **22,247** | **7,118** | **12,399** | **15,729** | 32,433 | 4,486 | 16,444 | 4,486 |

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

| | **Six months ended 30 June 2024** | | | | Six months ended 30 June 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Approximate** | | | | Approximate | | | |
| | **maximum** | **minimum** | **mean** | **At 30 June 2024** | maximum | minimum | mean | At 30 June 2023 |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Interest rate risk | **3,164,413** | **2,026,472** | **2,746,038** | **3,131,550** | 2,711,948 | 1,379,795 | 1,927,695 | 2,663,876 |
| Credit spread risk | **2,710,583** | **1,613,874** | **2,185,908** | **2,708,681** | 1,681,641 | 763,685 | 1,189,555 | 1,663,820 |
| Total 250-day VaR | **2,677,627** | **1,654,331** | **2,199,413** | **2,670,447** | 1,895,950 | 1,230,093 | 1,467,906 | 1,840,015 |

## (J) RISK MANAGEMENT (CONTINUED)

### (b) Market risk management (continued)

***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.

***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$917,000 (six months ended 30 June 2023: a profit of HK$356,000) with a standard deviation of HK$9,023,000 (six months ended 30 June 2023: HK$14,881,000).

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

| | **At 30 June 2024** | | | | At 31 December 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| **Equivalent in HK$'000** | **USD** | **RMB** | **Others** | **Total** | USD | RMB | Others | Total |
| Spot assets | **161,444,308** | **47,690,050** | **30,851,572** | **239,985,930** | 163,866,606 | 38,667,648 | 32,370,316 | 234,904,570 |
| Spot liabilities | **(155,808,174)** | **(49,788,335)** | **(14,375,413)** | **(219,971,922)** | (183,282,438) | (35,419,889) | (14,247,147) | (232,949,474) |
| Forward purchases | **738,749,467** | **420,462,707** | **124,927,309** | **1,284,139,483** | 597,655,659 | 362,751,221 | 68,659,310 | 1,029,066,190 |
| Forward sales | **(736,687,194)** | **(419,795,400)** | **(142,597,094)** | **(1,299,079,688)** | (568,170,894) | (369,306,138) | (88,628,791) | (1,026,105,823) |
| Net options position | **(3,172,269)** | **1,237,939** | **1,080,099** | **(854,231)** | (7,155,375) | 4,067,009 | 2,056,612 | (1,031,754) |
| Net long/(short) position | **4,526,138** | **(193,039)** | **(113,527)** | **4,219,572** | 2,913,558 | 759,851 | 210,300 | 3,883,709 |
| Net structural position | **–** | **641,483** | **48,549** | **690,032** | – | 659,869 | 48,497 | 708,366 |

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 gap risks, basis 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 2024, the Group's average daily trading profit and loss related to interest rate and fixed income trading strategy was a gain of HK$1,344,000 (30 June 2023: a gain of HK$1,611,000), with a standard deviation of HK$8,487,000 (30 June 2023: HK$16,690,000).

## (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 Board of Directors is ultimately responsible for the liquidity risk assumed by the Group and the manner in which the risk is managed. The Board has delegated to the Credit and Risk Management Committee ("CRMC") to oversee the Group's liquidity risk management, which further delegates to the Asset and Liability Committee ("ALCO") to formulate policies and strategies related to Asset and Liability Management, including liquidity policies.

– 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 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 2024, 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 2024 compare to the quarter ended 31 December 2023 was mainly driven by the decrease in cash inflow, partly offset by increase in the size of HQLA holdings.

## (J) RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk management (continued)

| | Weighted amount (average value) | | | | |
|---|---|---|---|---|---|
| | **For quarter ended 30 June 2024** | **For quarter ended 31 March 2024** | For quarter ended 31 December 2023 | For quarter ended 30 September 2023 | For quarter ended 30 June 2023 |
| **Average LCR** | **217%** | **195%** | 241% | 207% | 186% |

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 2024** | **For quarter ended 31 March 2024** | For quarter ended 31 December 2023 | For quarter ended 30 September 2023 | For quarter ended 30 June 2023 |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* |
| **Level 1 assets** | **56,293,315** | **64,225,420** | 62,129,462 | 55,257,554 | 50,790,765 |
| **Level 2 assets** | **18,513,384** | **15,102,257** | 13,202,648 | 13,197,041 | 12,610,309 |
| **Total** | **74,806,699** | **79,327,677** | 75,332,110 | 68,454,595 | 63,401,074 |

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 2024 was mainly driven by the change in bond portfolio composition. There is no interdependent asset and liability as defined in the Banking (Liquidity) Rules in the Group.

| | **Quarter ended 30 June 2024** | **Quarter ended 31 March 2024** | Quarter ended 31 December 2023 | Quarter ended 30 September 2023 | Quarter ended 30 June 2023 |
|---|---|---|---|---|---|
| **NSFR** | **142%** | **142%** | 157% | 147% | 136% |

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 2024, the capital buffers applicable to the Group include (i) 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 (ii) countercyclical capital buffer ("CCyB"), which is designed to provide protection against the built-up of system-wide risks, is set on an individual country basis ranging from 0% to 2.5% of risk-weighted amounts Effective from 1 April 2024, the HKMA has introduced a Positive Neutral CCyB for Hong Kong which sets a floor of 1% of risk-weighted amounts initially to help ensure the availability of sufficient capital buffer against possible exogenous system-wide shocks. On 3 May 2024, 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 to be implemented by the HKMA). 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 2024 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 2024 and year ended 31 December 2023, 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 unit 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 CRMC, which is a Board delegated Committee to oversee Operational Risk Management ("ORM") and relevant matters including but not limited to operational risk management performance, and review and approval of relevant policies, risk appetite and limits. 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 Operational Risk Governance Framework presents three lines of defense as depicted below:

**First Line of Defence** – Day-to-day operational risk management lies with 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 senior 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 existing or new material products, processes, systems, outsourced activities and projects with key changes to operations.

## (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 senior 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 analysis 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 good 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.

***Operational resilience***

The Group has established an operational resilience framework to prepare for and manage risks to critical operations delivery. The Group will regularly review the operational resilience parameters (including the coverage of critical operations), identify what risks or events may affect or disrupt critical operations delivery, and assess whether it is able to continue delivering critical operations through disruption (including under severe but plausible scenarios). The review results will be reported to the CRMC. The Group will also conduct scenario testing to regularly assess whether it is able to continue delivering critical operations through disruption.

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 2024, 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

In the first half of 2024, global inflationary pressures eased, Mainland China's economic performance remained solid, and international trade improved. Under the "One Country, Two Systems", Hong Kong actively integrated into the broader national development. By leveraging the Guangdong-Hong Kong-Macao Greater Bay Area platform, Hong Kong strengthened technological innovation and industrial upgrading, promoting high-quality development. China CITIC Bank International Limited and its subsidiaries ("the Group"), serving as the core offshore platform and main cross-border collaboration channel of its parent bank, China CITIC Bank Corporation Limited ("CNCB"), aligned with the development needs of both the country and Hong Kong, implemented the 4C (Culture, Customer, Collaboration, Cyberspace) strategies and collaborated with CITIC Group and CNCB to enhance the steady development of its core businesses. In the first half of 2024, operating profit before impairment reached HK$3.31 billion, representing a year-on-year increase of 19.9%.

## FINANCIAL REVIEW

In the first half of 2024, the Group recorded an operating income of HK$5.21 billion, marking a 9.0% year-on-year increase. Net interest income rose by 1.5% to HK$3.66 billion. The net interest margin widened by 2 basis points to 1.75%. Non-interest income surged by 31.9% to HK$1.55 billion, primarily driven by increases in treasury-related income and income from insurance products.

The Group is committed to strengthening cost management, fostering an agile culture transformation and Fintech development, optimising business structure, and allocating resources to strategic projects. Operating expenses decreased by 5.9% year-on-year to HK$1.90 billion, and the cost-to-income ratio reduced by 5.8 percentage points year-on-year to 36.4%.

Due to the increase in market credit risk, some loans were downgraded. The Group's impaired loan ratio was 2.58% as of end-June. Impairment losses amounted to HK$2.07 billion and profit attributable to shareholders was HK$1.06 billion. The Group will strengthen its efforts to dispose of non-performing loans, enhance credit risk management, and continuously improve the quality of its credit assets.

The Group continued to strengthen its asset and liability management, aiming to enhance capital efficiency and control funding costs. As of end-June, the Group's total assets amounted to HK$459.72 billion, representing a 2.3% decrease compared to the end of last year. Customer loans (including trade bills) increased by 1.4% to HK$229.50 billion. Customer deposits (including certificates of deposit issued) decreased by 1.9% to HK$335.67 billion. The loan-to-deposit ratio was 68.4%, an increase of 2.3 percentage points, remaining at a healthy level.

The Group maintained adequate capital and met all regulatory requirements regarding the total capital ratio, Tier 1 capital ratio, and Common Equity Tier 1 capital ratio. In February 2024, the Group redeemed US$500 million of Tier 2 subordinated notes issued in 2019. At the same time, the Group maintained sufficient liquidity to satisfy regulatory requirements.

## BUSINESS REVIEW

### Wholesale Banking Business

The total income from the wholesale banking business reached HK$2.09 billion. Non-interest income was HK$0.45 billion, an increase of 30.9% year-on-year, mainly driven by higher transaction banking and other fee income.

Structured finance performed actively, and green and sustainable financial loans grew rapidly. According to statistics from the London Stock Exchange Group, the Group ranked seventh in the Hong Kong and Macau Syndicated Loan League Table for Mandated Lead Arranger and Bookrunner, and ranked first in terms of transaction numbers. Green and sustainable financial loans reached HK$14.63 billion, an increase of 61.8% from the end of last year.

Transaction banking products and service channels have been enhanced. On one hand, through Fintech transformation, five key channels of transaction banking have been continuously optimised. The service capability levels of Payment and Receiving Bank, Dividend Payment, Corporate Payroll, Cross-border Cash Pooling Account, and Merchant Collection Service have been constantly upgraded. On the other hand, through onshore and offshore collaboration, capital market and daily settlement services have been strengthened. In the first half of the year, the Group completed corporate listed payment and receiving bank services, or dividend payment services, for 14 companies, an increase of 7 year-on-year.

**Treasury and Markets Business**

Treasury and Global Markets business demonstrated stable performance and received market recognition.

For the trading business, the Group continued to strengthen its position in foreign exchange trading, earning prestigious accolades such as "Top 5 Trading Volume (SPOT) 2023" and "Top 5 Trading Volume (SWAP) 2023" from the London Stock Exchange Group. The Group strengthened its leading advantage in RMB and FX trading operations, actively captured business opportunities, continuously improved service capabilities, and expanded transaction scale. According to Refinitiv data, the Group ranked among the top three Chinese financial institutions in Hong Kong by RMB FX trading volume.

For the custody and trustee business, as of end-June, the Group's total assets under custody surged from HK$178.4 billion at the end of last year to HK$224.4 billion. Concurrently, the total assets under trustee grew from HK$19.0 billion to HK$97.9 billion.

For the debt capital markets business, the Group proactively captured market opportunities and leveraged the advantages of the "Southbound" scheme, successfully completing 112 tranches of public bond issuance in the first half of 2024.

**Personal and Business Banking Business**

The total income from the personal and business banking business was HK$2.01 billion, reflecting a year-on-year growth of 26.1%, with net interest income growing by 22.7% and non-interest income rising by 32.2%.

By fully utilising the strengths of CNCB's offshore service platform for high-net-worth customers and leveraging consolidated resources, the high-net-worth customer "Financial + Non-financial" servicing model has been deployed. Comprehensive financial service solutions and a collaboration mechanism among "Mainland China + Hong Kong + Macau Bancassurance + Singapore Private Banking" have been optimised, showcasing a unique wealth management brand. The Group has also launched Cross-boundary Wealth Management Connect 2.0 services, resulting in significant growth in new account openings. Consequently, revenue generated from investment and insurance increased by 29.1% year-on-year, and Private Banking income rose by 31.9% year-on-year.

Through active innovation in deposit and lending products to continuously enhance core product competitiveness, the retail deposit balance demonstrated growth of 11.6% compared to the end of last year, which helps control funding costs, expand the net interest margin, and increase net interest income.

## FINTECH TRANSFORMATION

In response to the "Fintech 2025" strategy of the Hong Kong Monetary Authority, the Group promotes the transformation of Fintech to enhance the capabilities of banking services. Meanwhile, to enhance transformation effectiveness, a priority strategy for project investment has been adopted to optimise the input-output efficiency of technological resources.

For the wholesale banking business, the Customer Relationship Management System has been enhanced and extended to overseas branches. The Transaction Banking Application Programming Interface host-to-host solution has been launched to meet customers' needs for real-time payment and reconciliation. The number of e-channel corporate customers reached a record high of nearly 3,000. For the treasury and global markets business, the Electronic Trading Platform has been continuously enhanced to improve customer experience, offering more competitive foreign exchange quotations. For the personal and business banking sectors, the number of mobile banking inMotion users increased by more than 15% from the end of last year, and digital sales transactions grew by around 60% year-on-year. In addition, the Group was among the first batch of banks to provide an e-CNY wallet top-up service in Hong Kong. The Group was awarded "The Asian Banker Hong Kong Excellence in Retail Finance and Technology Innovation Awards 2024 – Best Big Data and Analytics Infrastructure Implementation".

The Group employs technology to enhance its operations and risk control capabilities, including automated process transformation and Natural Language Processing technology to monitor potential abnormal trading activities. Additionally, the Group has developed data capabilities to streamline reporting processes and accelerate business decision-making, thereby advancing 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 mechanisms and capacities for risk early warning, prevention, control, and disposal are strengthened. The Group pursues several risk management enhancement initiatives, including the implementation of the Basel III Reform Package and Operational Resilience, to keep pace with increasingly stringent regulatory requirements. The Group strengthens its resilience against climate-related risks through the effective implementation of a climate risk management framework. On the credit risk front, the Group adheres to stringent credit policies, conducts credit risk assessments and post-lending monitoring, and proactively performs portfolio reviews and stress tests. The Group has assessed and followed up on the potential impact of stressed environments (such as slower global economic growth and continuously intensifying 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 continues to strengthen employee compliance education, reinforce standards of conduct and business ethics, and enhance employees' risk awareness and response capabilities. To ensure that the Group operates in compliance with laws and regulations, close communication with regulatory authorities is maintained to stay abreast of industry dynamics and regulatory trends.

## ESG AND SUSTAINABLE GROWTH

The Government of the Hong Kong Special Administrative Region ("the HK Government") prioritises the sustainable development of Hong Kong's financial industry. The Group collaborates closely with the HK Government, implementing the green development concepts of CITIC Group and CNCB, and sets forth ESG strategic transformation goals. Green and sustainable development is actively promoted by integrating ESG concepts into business operations while accelerating the transformation and structural adjustment of financial business. A variety of products and services have been launched, including green and sustainable financial loans, funds, bonds, mortgages, credit cards, and payroll accounts, with concrete results achieved. In the first half of the year, green and sustainable financial loans increased by 61.8% compared to the end of last year. Additionally, 7 awards were received at The Asset "Triple A Awards for Sustainable Finance 2024", and the "Innovative Deal of the Year – Hong Kong" was awarded at the Asian Banking and Finance "Corporate and Investment Banking Awards 2024". The underwriting scale of green and sustainable development bonds grew by 64.7% year-on-year. According to Covalent Capital data, the Group's "green and sustainable development financing structure consultant" ranked second in the offshore bond market.

To combat climate change, the Group's Credit and Risk Management Committee continues to monitor climate risks. By implementing various low-carbon operational measures, such as replacing fuel vehicles with electric ones and utilising energy-saving and renewable energy equipment in branches and offices, reductions in fuel and electricity consumption of 10.9% and 2.8% year-on-year, respectively, were achieved.

The Group values the development of its employees. In addition to continuously cultivating a good corporate culture through the "Co-creation of CNCBI's Agile Culture Transformation 2.0" workshop, it also actively responded to the HK Government's "Top Talent Pass Scheme" to attract talent and ensure that the Group has a sound and diverse talent pool. A number of activities were organised, such as the "CNCBI's Team Power Obstacle Challenge and Family Fun Day", "Wellness Day", various festive celebrations, etc., which demonstrated the Group's concern for the physical and mental wellness of its employees, as well as its commitment to being a family-friendly employer.

Regarding community service and charitable activities, during the first half of the year, over 220 staff members participated in around 30 volunteer services organised by the CNCBI Volunteer Team, contributing nearly 1,000 service hours and benefiting close to 6,000 people. Additionally, the Group supported programs such as "Draw Hong Kong" and "Building Tomorrow Together", benefiting nearly 2,500 individuals and making contributions to society.

## OUTLOOK

The US Federal Reserve may embark on an easing cycle in the second half of the year due to disinflation and weakening economic growth. Mainland China's economic growth for the full year should be close to the target of around 5%, while the real estate sector remains the market's main focus. In Hong Kong, exports will likely rebound, and GDP growth for 2024 could reach 3%. Hong Kong dollar interbank rates will subsequently decline after the Federal Reserve's rate-cut cycle begins.

Hong Kong is one of the world's major international financial centres and an important hub connecting domestic and international financial markets. The Group will continue to actively serve the national strategy, integrate into the country's "14th Five-Year Plan", the "Belt and Road Initiative" and the Guangdong-Hong Kong-Macao Greater Bay Area development plan, supporting Hong Kong in becoming a "super connector" and "super value-adder", showcasing new achievements in constructing Hong Kong as an international financial centre and promoting financial reform and opening up.

The Group will strengthen collaboration with CITIC Group and CNCB, deepen Fintech transformation, actively explore new business models and market opportunities, promote diversified business development, and improve business efficiency and customer experience to meet the diverse needs of customers. To sustain the growth of non-interest income, new business opportunities will be explored to create new development momentum. To improve operating efficiency, management practices will be refined and processes will be reengineered to reduce operating expenses. For capital operations, light capital transformation will be adhered. While increasing loan issuance and growing interest-bearing assets, risks and liability costs will be strictly controlled to ensure stable operation and sustainable business development.

The Group is committed to fulfilling its corporate social responsibilities, upholding the principle of serving the community, and continuously spreading "CITIC's warmth". The Group will fully support the "Celebrate the Return to the Motherland – Lecture on Financial Services for Chinese Enterprises in the Community", initiated by the Hong Kong Chinese Enterprises Association. A variety of public welfare and volunteer activities will be organised, including supporting community care projects focused on underprivileged groups, organising financial literacy workshops to raise anti-fraud awareness, and arranging environmental protection activities to contribute to a greener home. In October this year, the Group will be the title sponsor of the "15th Asian Dragon Boat Championships", a major international dragon boat event. This sponsorship aims to strengthen Hong Kong's international connectivity, enhance its influence, and benefit society.

In the next phase, we will unite as one, dedicating ourselves to providing exceptional financial services to our customers, enhancing value for our shareholders, and contributing more to society. We believe that through the collective efforts of our employees, we can reach new heights, lay a robust foundation for the Group's long-term growth, and contribute to Hong Kong's high-quality development.

**Bi Mingqiang**
*Executive Director, President & Chief Executive Officer*

27 August 2024