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Non-collateralised Structured Products

Addendum to the Base Listing Document dated 13 April 2022 relating to Structured Products

to be issued by



The Bank of East Asia, Limited
(incorporated with limited liability in Hong Kong)

This addendum includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) for the purpose of giving further information with regard to us. **You must read this addendum in conjunction with our base listing document dated 13 April 2022 (our “Base Listing Document”).**

We accept full responsibility for the accuracy of the information contained in this addendum and/or our Base Listing Document and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement in this addendum and/or our Base Listing Document misleading.

The Structured Products are complex products. Investors should exercise caution in relation to them. The Structured Products involve derivatives. The investment decision is yours but you should not invest in any series of Structured Products unless you fully understand and are willing to assume the risks associated with them.

Investors are warned that the Structured Products are not principal protected and the price of Structured Products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the Structured Products and carefully study the risk factors set out in our Base Listing Document and the relevant launch announcement and supplemental listing document, where necessary, seek professional advice, before they invest in the Structured Products.

The Structured Products constitute our general unsecured contractual obligations and of no other person and will rank equally among themselves and with all our other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase the Structured Products, you are relying upon our creditworthiness and have no rights under the Structured Products against (a) the company which has issued the underlying securities; (b) the trustee or the manager of the underlying unit trust; or (c) the index compiler of any underlying index. If we become insolvent or default on our obligations under the Structured Products, you may not be able to recover all or even part of the amount due under the Structured Products (if any).

IMPORTANT INFORMATION

What is this addendum about?

This addendum contains extracts of our Interim Report 2022 which contains our unaudited interim financial information for the six months ended 30 June 2022. This addendum is a supplement to our Base Listing Document.

You should read this addendum together with our Base Listing Document (including any other addendum to our Base Listing Document to be issued by us from time to time) and the relevant launch announcement and supplemental listing document (including any addendum to such launch announcement and supplemental listing document to be issued by us from time to time) (together, the “**Listing Documents**”) before investing in any Structured Product.

Where can you inspect the relevant documents?

Copies of each of the Listing Documents and other documents set out in the section headed “Where can you inspect the relevant documents?” in our Base Listing Document may be inspected during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at our office at 10 Des Voeux Road Central, Hong Kong.

各上市文件連同於基本上市文件「閣下可在何處查閱有關文件？」一節所列的其他文件，可於任何平日(星期六、星期日及公眾假期除外)的一般辦公時間內，於我們的辦事處（地址為香港德輔道中 10 號）查閱。

Are we subject to any litigation?

Save as disclosed in our Listing Documents, we and our subsidiaries are not aware of any litigation or claims of material importance pending or threatened against us or them.

Has our financial position changed since last financial year-end?

Save as disclosed in this addendum and Appendix 6 of the Base Listing Document, there has been no material adverse change in our financial or trading position since the date of our most recently published audited financial statements.

Are we regulated by any bodies referred to in Rule 15A.13(2) or (3) of the Listing Rules?

We are a licensed bank regulated by, among others, the Hong Kong Monetary Authority.

What are our credit ratings?

Our credit ratings as of the date of this addendum are:

<i>Rating Agency</i>	<i>Rating (outlook)</i>
Moody's Investors Service, Inc.	A3 (Positive)
S&P Global Ratings	A- (Stable)

You may visit the following website for updated information of our credit ratings:

http://www.hkbea.com/hk/ci/investor_comm/credit_ratings/index.htm

Rating agencies usually receive a fee from issuers that they rate. When evaluating our creditworthiness, you should not solely rely on our credit ratings because:

- (a) credit rating is not a recommendation to buy, sell or hold the Structured Products;
- (b) ratings of companies may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence;
- (c) a high credit rating is not necessarily indicative of low risk. Our credit ratings as of the date of this addendum are for reference only. Any downgrading of our ratings could result in a reduction in the value of the Structured Products;
- (d) a credit rating is not an indication of the liquidity or volatility of the Structured Products; and
- (e) a credit rating may be downgraded if our credit quality declines.

How can you get further information about us?

You may visit www.hkbea.com to obtain further information about us.

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EXTRACTS OF OUR INTERIM REPORT 2022

The information set out in this section below has been extracted from our Interim Report 2022 which contains the unaudited interim financial information of us and our subsidiaries for the six months ended 30 June 2022. References to page numbers on the pages in this section are to the page numbers in our Interim Report 2022.

The principal accounting policies adopted in the preparation of the unaudited interim financial information for the six months ended 30 June 2022 are consistent with those used in our financial statements for the year ended 31 December 2021, except for the accounting policy changes that are expected to be reflected in the 2022 audited accounts. Details of these changes in accounting policies are set out in Note 2 on page 10 of the Interim Report 2022.

Our Interim Report 2022 is available for inspection at our office at 10 Des Voeux Road Central, Hong Kong. You may also visit our website at <http://www.hkbea.com/html/en/bea-about-bea-investor-communication-annual-and-interim-reports.html> to access such report.

FINANCIAL HIGHLIGHTS

	30 June 2022	30 June 2021	31 December 2021
For the half year ended			
Profitability	HK\$ Mn	HK\$ Mn	HK\$ Mn
Operating profit before impairment losses	3,712	3,768	3,194
Profit attributable to owners of the parent	1,499	2,671	2,599
Earnings Per Share and Dividends Per Share	HK\$	HK\$	HK\$
Basic earnings	0.39	0.78	0.75
Dividends	0.16	0.35	0.35
Key Ratios	%	%	%
Return on average assets (annualised) ¹	0.2	0.5	0.5
Return on average equity (annualised) ²	2.2	4.6	4.3
Cost-to-income ratio ³	54.3	55.2	59.4

At period/year end

Balance Sheet Strength	HK\$ Mn	HK\$ Mn	HK\$ Mn
Total loans and advances to customers and trade bills	554,443	546,577	559,580
Total assets	908,211	900,509	907,470
Total customers' deposits and certificates of deposit issued	691,221	661,656	697,832
Total equity	106,325	114,506	116,050
Key Ratios	%	%	%
Loan to deposit ratio ⁴	79.8	80.9	78.6
Impaired loan ratio ⁵	1.58	1.21	1.09
Common Equity Tier 1 capital ratio ⁶	15.7	16.9	17.0
Tier 1 capital ratio ⁶	17.7	19.8	19.8
Total capital ratio ⁶	20.2	22.4	21.6

Notes:

1. Annualised profits attributable to the owners of the parent for the period after deduction of the distributions to Additional Tier 1 issue holders / Monthly average balance of the total assets for the period including last year-end balance.
2. Annualised profits attributable to the owners of the parent for the period after deduction of the distributions to Additional Tier 1 issue holders / Monthly average balance of the total equity attributable to the owners of the parent for the period including last year-end balance.
3. Operating expenses / Operating income.
4. Total gross loans and advances to customers / Total deposits from customers and certificates of deposits issued.
5. Gross impaired loans and advances to customers / Total gross loans and advances to customers.
6. It is computed on a consolidated basis in accordance with Banking (Capital) Rules.

CORPORATE INFORMATION

SPECIAL ADVISOR TO THE BOARD

Dr. Isidro FAINÉ CASAS

BOARD OF DIRECTORS

Executive Directors

Dr. the Hon. Sir David LI Kwok-po
(Executive Chairman)

Mr. Adrian David LI Man-kiu
(Co-Chief Executive)

Mr. Brian David LI Man-bun
(Co-Chief Executive)

Non-executive Directors

Professor Arthur LI Kwok-cheung
(Deputy Chairman)

Mr. Aubrey LI Kwok-sing

Mr. Winston LO Yau-lai

Mr. Stephen Charles LI Kwok-sze

Dr. Daryl NG Win-kong

Mr. Masayuki OKU

Dr. Francisco Javier SERRADO TREPAT

Independent Non-executive Directors

Dr. Allan WONG Chi-yun
(Deputy Chairman)

Dr. the Hon. Rita FAN HSU Lai-tai

Mr. Meocre LI Kwok-wing

Dr. the Hon. Henry TANG Ying-yen

Dr. Delman LEE

Mr. William Junior Guilherme DOO

Dr. David MONG Tak-yeung

SENIOR ADVISOR

Mr. CHAN Tze-ching

SENIOR MANAGEMENT

Mr. Adrian David LI Man-kiu
Co-Chief Executive

Mr. Brian David LI Man-bun
Co-Chief Executive

Mr. Samson LI Kai-cheong
Deputy Chief Executive & Chief Investment Officer

Mr. TONG Hon-shing
Deputy Chief Executive & Chief Operating Officer

COMPANY SECRETARY

Mr. Alson LAW Chun-tak

AUDITOR

KPMG

Certified Public Accountants

Public Interest Entity Auditor registered in accordance
with the Financial Reporting Council Ordinance

SHARE LISTING

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SHARE REGISTRAR

Tricor Standard Limited

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INTERIM RESULTS

The Board of Directors of the Bank is pleased to announce the unaudited results (Note 1(a)) of the Group for the six months ended 30th June, 2022. The interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2021 audited financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 audited financial statements. Details of these changes in accounting policies are set out in Note 2. The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the HKICPA. KPMG's independent review report to the Board is included on page 76.

Consolidated Income Statement

		6 months ended 30/6/2022	6 months ended 30/6/2021
	Notes	HK\$ Mn	HK\$ Mn
Interest income	3	9,658	8,887
Interest income calculated using the effective interest method		10,154	9,403
Related interest expense		(496)	(516)
Interest expense	4	(3,828)	(3,364)
Net interest income		5,830	5,523
Fee and commission income	5	1,751	1,969
Fee and commission expense		(311)	(429)
Net fee and commission income		1,440	1,540
Net trading profit	6	441	561
Net result on financial instruments at FVTPL	7	34	173
Net result on financial assets measured at FVOCI	8	(1)	21
Net loss on sale of investments measured at amortised cost		–	(13)
Net hedging profit	9	67	64
Net insurance profit	10	157	371
Other operating income	11	150	175
Non-interest income		2,288	2,892
Operating income		8,118	8,415
Operating expenses	12	(4,406)	(4,647)
Operating profit before impairment losses		3,712	3,768
Impairment losses on financial instruments	13	(2,136)	(581)
Impairment losses		(2,136)	(581)
Operating profit after impairment losses		1,576	3,187
Net gain/(loss) on disposal of fixed assets	14	33	(22)
Valuation gains/(losses) on investment properties	23	3	(123)
Share of profits less losses of associates and joint ventures		190	129
Profit for the period before taxation		1,802	3,171
Income tax	15	(292)	(474)
Profit for the period		1,510	2,697

Consolidated Income Statement (Continued)

		6 months ended 30/6/2022	6 months ended 30/6/2021
	Notes	HK\$ Mn	HK\$ Mn
Attributable to:			
Owners of the parent		1,499	2,671
Non-controlling interests		11	26
		<u>1,510</u>	<u>2,697</u>
Profit for the period		<u>1,510</u>	<u>2,697</u>
Profit for the Bank		<u>1,455</u>	<u>2,305</u>
Earnings per share			
Basic	1(b)	HK\$0.39	HK\$0.78
Diluted	1(b)	HK\$0.39	HK\$0.78

Consolidated Statement of Comprehensive Income

		6 months ended 30/6/2022	6 months ended 30/6/2021
	Notes	HK\$ Mn	HK\$ Mn
Net profit		1,510	2,697
Other comprehensive income for the period:			
Items that will not be reclassified to income statement:			
Premises:			
– unrealised surplus on revaluation of premises		–	4
– deferred taxes	31	1	5
Fair value reserve (equity instruments):			
– net change in fair value		181	(537)
– deferred taxes	31	(4)	(13)
Liability credit reserve:			
– net change in fair value attributable to Group's own credit risk		82	(7)
– deferred taxes	31	(13)	2
Items that may be reclassified subsequently to income statement:			
Fair value reserve (debt instruments):			
– net change in fair value		(1,807)	463
– amount transferred to income statement on disposal		7	(78)
– deferred taxes	31	267	(163)
Hedging reserve (cash flow hedges):			
– effective portion of changes in fair value of hedging instruments		–	1
– fair value change transferred to income statement		–	(1)
Share of changes in equity of associates and joint ventures		45	(193)
Exchange differences arising from translation of accounts/disposal of overseas branches, subsidiaries, associates and joint ventures		(1,830)	266
Other comprehensive income		(3,071)	(251)
Total comprehensive income		(1,561)	2,446
Total comprehensive income attributable to:			
Owners of the parent		(1,572)	2,420
Non-controlling interests		11	26
		(1,561)	2,446

Consolidated Statement of Financial Position

		30/6/2022	31/12/2021
	Notes	HK\$ Mn	HK\$ Mn
ASSETS			
Cash and balances with banks	16	54,817	55,088
Placements with and advances to banks	17	67,128	74,742
Trade bills	18	3,071	10,772
Trading assets	19	672	2,483
Derivative assets	37(b)	8,783	3,381
Loans and advances to customers	20	546,421	544,437
Investment securities	21	150,471	147,507
Investments in associates and joint ventures	22	8,669	8,947
Fixed assets	23	13,543	13,844
– Investment properties		4,994	4,992
– Other properties and equipment		7,677	8,015
– Right-of-use assets		872	837
Goodwill and intangible assets		1,878	1,885
Deferred tax assets	31	1,769	1,861
Other assets	24	50,989	42,523
– Assets held for sale	42	2,062	2,264
– Others		48,927	40,259
Total Assets		908,211	907,470
EQUITY AND LIABILITIES			
Deposits and balances of banks		34,531	31,766
– Designated at fair value through profit or loss	25	3,761	3,639
– At amortised cost		30,770	28,127
Deposits from customers		644,564	633,505
– Demand deposits and current accounts		69,500	79,657
– Savings deposits		184,981	196,662
– Time, call and notice deposits		390,083	357,186
Trading liabilities	26	27	5
Derivative liabilities	37(b)	3,651	5,050
Certificates of deposit issued		46,657	64,327
– Designated at fair value through profit or loss	25	25,586	32,618
– At amortised cost		21,071	31,709
Current taxation		1,144	958
Debt securities issued		3,147	5,847
– Designated at fair value through profit or loss	25	824	620
– At amortised cost		2,323	5,227
Deferred tax liabilities	31	266	559
Other liabilities	27	55,641	42,915
– Liabilities held for sale	42	1,658	1,637
– Others		53,983	41,278
Loan capital – at amortised cost	28	12,258	6,488
Total Liabilities		801,886	791,420
Share capital	1(d)	41,791	41,645
Reserves	32	54,177	60,133
Total equity attributable to owners of the parent		95,968	101,778
Additional equity instruments	33	10,090	13,968
Non-controlling interests		267	304
Total Equity		106,325	116,050
Total Equity and Liabilities		908,211	907,470

Consolidated Statement of Changes in Equity

	Share capital	General reserve	Revaluation reserve of bank premises	Capital reserve	Exchange revaluation reserve	Capital reserve – staff share options issued	Fair value reserve	Liability credit reserve	Other reserves ²	Retained profits	Total	Additional equity instruments	Non-controlling interests	Total equity
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1st January, 2022	41,645	13,658	1,905	895	1,058	152	1,925	(46)	5,191	35,395	101,778	13,968	304	116,050
Changes in equity														
Profit for the period	-	-	-	-	-	-	-	-	-	1,499	1,499	-	11	1,510
Other comprehensive income	-	-	1	-	(1,830)	-	(1,356)	69	45	-	(3,071)	-	-	(3,071)
Total comprehensive income	-	-	1	-	(1,830)	-	(1,356)	69	45	1,499	(1,572)	-	11	(1,561)
Shares issued in lieu of dividend (Note 1(d))	146	-	-	-	-	-	-	-	-	-	146	-	-	146
Equity settled share-based transaction	-	-	-	-	-	11	-	-	-	-	11	-	-	11
Transfer	-	-	-	-	-	(24)	-	-	(7)	31	-	-	-	-
Distribution/Dividends declared or approved during the period	-	-	-	-	-	-	-	-	-	(1,432)	(1,432)	-	(48)	(1,480)
Share buy-back ³	-	-	-	-	-	-	-	-	-	(2,916)	(2,916)	-	-	(2,916)
Redemption of additional equity instruments ¹	-	-	-	-	-	-	-	-	-	(47)	(47)	(3,878)	-	(3,925)
At 30th June, 2022	41,791	13,658	1,906	895	(772)	139	569	23	5,229	32,530	95,968	10,090	267	106,325
At 1st January, 2021	41,557	13,657	1,895	895	301	157	2,465	(32)	5,138	32,852	98,885	13,968	943	113,796
Changes in equity														
Profit for the period	-	-	-	-	-	-	-	-	-	2,671	2,671	-	26	2,697
Other comprehensive income	-	-	9	-	266	-	(328)	(5)	(193)	-	(251)	-	-	(251)
Total comprehensive income	-	-	9	-	266	-	(328)	(5)	(193)	2,671	2,420	-	26	2,446
Shares issued in lieu of dividend	42	-	-	-	-	-	-	-	-	-	42	-	-	42
Equity settled share-based transaction	-	-	-	-	-	9	-	-	-	-	9	-	-	9
Transfer	-	-	-	-	-	(24)	-	-	208	(184)	-	-	-	-
Distribution/Dividends declared or approved during the period	-	-	-	-	-	-	-	-	-	(1,105)	(1,105)	-	(52)	(1,157)
Change of ownership in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(630)	(630)
At 30th June, 2021	41,599	13,657	1,904	895	567	142	2,137	(37)	5,153	34,234	100,251	13,968	287	114,506

- Notes: 1. The Bank redeemed HK\$3,878 million (USD500 million) undated non-cumulative subordinated Additional Tier 1 capital securities issued in 2017.
2. Other reserves include statutory reserve and other reserves.
3. In April 2022, the Bank bought back 247 million issued shares at a consideration of HK\$2,904 million. Together with the direct transaction cost of HK\$12 million, a total amount of HK\$2,916 million were accounted for as deduction from retained profits.

Condensed Consolidated Cash Flow Statement

		6 months ended 30/6/2022	6 months ended 30/6/2021
	Notes	HK\$ Mn	HK\$ Mn
NET CASH INFLOW/(OUTFLOW) FROM OPERATIONS		9,305	(13,894)
Income tax paid			
Hong Kong profits tax paid		(6)	(16)
Outside Hong Kong profits tax paid		(121)	(105)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		9,178	(14,015)
INVESTING ACTIVITIES			
Dividends received from associates and joint ventures		7	–
Dividends received from equity securities measured at FVOCI		9	6
Purchase of fixed assets		(179)	(174)
Proceeds from disposal of other properties and equipment		103	3
Returns of investment in associates		–	3
NET CASH USED IN INVESTING ACTIVITIES		(60)	(162)
FINANCING ACTIVITIES			
Ordinary dividends paid		(925)	(710)
Distribution to Additional Tier 1 issue holders	1(c)	(409)	(405)
Payment for repurchase of shares		(2,916)	–
Issue of debt securities		390	314
Issue of loan capital		3,879	–
Payment of lease liabilities		(159)	(199)
Redemption of debt securities issued		(2,931)	(4)
Redemption of additional equity instruments		(3,925)	–
Interest paid on debt securities issued		(126)	(117)
Interest paid on loan capital		(158)	(236)
NET CASH USED IN FINANCING ACTIVITIES		(7,280)	(1,357)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,838	(15,534)
CASH AND CASH EQUIVALENTS AT 1st JANUARY		120,646	113,702
Effect of foreign exchange rate changes		(2,338)	479
CASH AND CASH EQUIVALENTS AT 30th JUNE	34	120,146	98,647
Cash flows from operating activities included:			
Interest received		9,736	8,961
Interest paid		3,619	3,648
Dividend received		20	17

Notes to the Interim Financial Statements

Notes:

1. (a) This interim report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of these changes in accounting policies are set out in Note 2 below.

The financial information relating to the financial year ended 31st December, 2021 that is included in the interim financial report as comparative information does not constitute the Bank's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31st December, 2021 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Bank's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

- (b) (i) The calculation of basic earnings per share is based on the consolidated profit for the period attributable to owners of the parent of HK\$1,090 million (six months ended 30th June, 2021: HK\$2,266 million) after accounting for the distribution of HK\$409 million (six months ended 30th June, 2021: HK\$405 million) to Additional Tier 1 issue holders, and on the weighted average of 2,818 million ordinary shares outstanding during the six months ended 30th June, 2022 (six months ended 30th June, 2021: 2,918 million).
- (ii) The calculation of diluted earnings per share is based on the consolidated profit for the period attributable to owners of the parent of HK\$1,090 million (six months ended 30th June, 2021: HK\$2,266 million) after accounting for the distribution of HK\$409 million (six months ended 30th June, 2021: HK\$405 million) to Additional Tier 1 issue holders, and on the weighted average of 2,818 million ordinary shares outstanding during the six months ended 30th June, 2022 (six months ended 30th June, 2021: 2,918 million), adjusted for the effects of all dilutive potential shares.
- (c) Distribution/Dividends
- (i) Dividends payable to equity owners of the parent attributable to the interim period

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Interim dividend declared after the interim period of HK\$0.16 per share on 2,689 million shares (six months ended 30th June, 2021: HK\$0.35 per share on 2,919 million shares)	430	1,022

The interim dividend has not been recognised as a liability at the end of the reporting period.

Notes to the Interim Financial Statements (Continued)

1. (c) Distribution/Dividends (Continued)

- (ii) Dividends payable to equity owners of the parent attributable to the previous financial year, approved and paid during the interim period

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Second interim dividend of HK\$0.35 per share on 2,923 million shares (2021: HK\$0.24 per share on 2,917 million shares)	1,023	700

- (iii) Distribution to holders of Additional Tier 1 capital instruments

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Distribution paid on the Additional Tier 1 capital instruments	409	405

(d) Share Capital

Movement of the Bank's ordinary shares is set out below:

	At 30th June, 2022		At 31st December, 2021	
	No. of shares		No. of shares	
	Million	HK\$ Mn	Million	HK\$ Mn
Ordinary shares, issued and fully paid:				
At 1st January	2,923	41,645	2,917	41,557
Share issued in lieu of dividend	13	146	6	88
Share buy-back (Note)	(247)	—	—	—
At 30th June/31st December	2,689	41,791	2,923	41,645

Note: On 11th April, 2022, the Bank bought back its 247 million issued shares after completion of an off-market share buy-back transaction. Such shares were cancelled on 20th April, 2022.

2. Changes in Accounting Policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the Interim Financial Statements (Continued)

3. Interest Income

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Loans, deposits with banks, and trade bills	8,200	7,635
Investment securities		
– measured at amortised cost or FVOCI	1,385	1,169
– mandatory at FVTPL	53	57
Trading assets	20	26
	<u>9,658</u>	<u>8,887</u>

For the transactions where interest rate risk is hedged, the periodic payments and receipts arising from interest rate contracts which are qualifying hedging instruments for, or individually managed in conjunction with, interest bearing financial assets are first netted together and then combined with the interest income from the corresponding financial assets.

The above included interest income of HK\$10,154 million (six months ended 30th June, 2021: HK\$9,403 million), before hedging effect, for financial assets that are not recognised at fair value through profit or loss.

4. Interest Expense

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Customer deposits and deposits of banks		
– at amortised cost	3,274	2,721
– designated at FVTPL	12	6
Certificates of deposit and debt securities issued		
– at amortised cost	238	327
– designated at FVTPL	118	96
Subordinated notes carried at amortised cost	166	197
Lease liabilities	15	15
Other borrowings	5	2
	<u>3,828</u>	<u>3,364</u>

For the transactions where interest rate risk is hedged, the periodic payments and receipts arising from interest rate contracts which are qualifying hedging instruments for, or individually managed in conjunction with, interest bearing financial liabilities are first netted together and then combined with the interest expense from the corresponding financial liabilities.

The above included interest expense of HK\$3,711 million (six months ended 30th June, 2021: HK\$3,285 million), before hedging effect, for financial liabilities that are not recognised at fair value through profit or loss.

Notes to the Interim Financial Statements (Continued)

5. Fee and Commission Income

Fee and commission income is disaggregated by services:

	6 months ended 30/6/2022	6 months ended 30/6/2021 Restated ^(Note)
	HK\$ Mn	HK\$ Mn
Loans, overdrafts and guarantees	440	475
Credit cards	331	391
Sale of third party insurance policies	251	83
Securities brokerage	124	251
Investment products	118	246
Trust and other fiduciary activities	112	150
Other retail banking services	101	86
Trade finance	50	40
Others	224	247
Total fee and commission income	1,751	1,969
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not measured at FVTPL	1,445	1,549
Fee income	1,751	1,969
Fee expenses	(306)	(420)

Note: Certain fee and commission income for the six months ended 30th June, 2021 has been reclassified among the categories of loans, overdrafts and guarantees, securities brokerage, trade finance and others to conform to the current period and prior year end's presentation.

6. Net Trading Profit

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Profit on dealing in foreign currencies and funding swaps	275	239
(Loss)/Profit on trading securities	(88)	82
Net gain on derivatives	244	229
Loss on other dealing activities	(1)	(1)
Dividend income from trading equity securities	11	12
	441	561

Notes to the Interim Financial Statements (Continued)

7. Net Result on Financial Instruments at FVTPL

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Net gain from financial instruments designated at FVTPL	289	16
Net (loss)/gain from financial instruments mandatorily measured at FVTPL (other than those included in net trading profits)	(255)	157
	<u>34</u>	<u>173</u>

8. Net Result on Financial Assets Measured at FVOCI

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Net (loss)/profit on sale of debt securities	(10)	15
Dividend income from equity securities	9	6
	<u>(1)</u>	<u>21</u>

9. Net Hedging Profit

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Fair value hedges		
– Net loss on hedged items attributable to the hedged risk	(6,462)	(1,655)
– Net gain on hedging instruments	6,529	1,719
	<u>67</u>	<u>64</u>

There was insignificant ineffectiveness recognised in the Group's income statement arising from cash flow hedge for the six months ended 30th June, 2022 and 30th June, 2021.

Notes to the Interim Financial Statements (Continued)

10. Net Insurance Profit

		6 months ended 30/6/2022	6 months ended 30/6/2021
		HK\$ Mn	HK\$ Mn
(a)	Net insurance profit		
	Net interest income	14	352
	Net trading profit	5	29
	Net result on financial instruments at FVTPL	(12)	159
	Net profit on sale of debt investment securities measured at FVOCI	–	56
	Net insurance premium	(b) 500	3,550
		507	4,146
	Net insurance claims and expenses	(c) (350)	(3,752)
		157	394
	Operating expenses	–	(2)
	Impairment losses on financial instruments	–	(21)
		157	371
(b)	Net insurance premium		
	Gross insurance premium income	529	3,586
	Reinsurer's share of gross insurance premium income	(29)	(36)
		500	3,550
(c)	Net insurance claims and expenses		
	Claims, benefits and surrenders paid	427	3,263
	Movement in provisions	(124)	445
		303	3,708
	Reinsurers' share of claim, benefits and surrenders paid	(24)	(17)
	Reinsurers' share of movement in provisions	13	(3)
		(11)	(20)
		292	3,688
	Net insurance commission expenses	58	64
		350	3,752

Notes to the Interim Financial Statements (Continued)

11. Other Operating Income

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Rental from safe deposit boxes	61	61
Rental income on properties	66	76
Government subsidy – Employment Support Scheme	4	–
Others	19	38
	<u>150</u>	<u>175</u>

12. Operating Expenses

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Contributions to defined contribution plan		
– Hong Kong	81	93
– Outside Hong Kong	114	116
Equity settled share-based payment expenses	11	9
Salaries and other staff costs	2,546	2,547
Total staff costs	<u>2,752</u>	<u>2,765</u>
Premises and equipment expenses excluding depreciation		
– Expenses relating to short-term leases	6	10
– Variable lease payments not included in the measurement of lease liabilities (Note)	(2)	3
– Maintenance, repairs and others	370	373
Total premises and equipment expenses excluding depreciation	<u>374</u>	<u>386</u>
Depreciation on		
– Bank premises, furniture, fixtures and equipment	290	290
– Right-of-use assets	160	195
	<u>450</u>	<u>485</u>
Amortisation of intangible assets	<u>7</u>	<u>7</u>
Other operating expenses		
– Internet platform charges	205	259
– Legal and professional fees	165	163
– Communications, stationery and printing	133	129
– Advertising expenses	118	95
– Insurance expenses	70	66
– Stamp duty, withholding taxes and value added taxes	42	41
– Card related expenses	37	64
– Business promotions and business travel	23	24
– Others	30	163
Total other operating expenses	<u>823</u>	<u>1,004</u>
Total operating expenses	<u>4,406</u>	<u>4,647</u>

Note: Included a credit of HK\$2.0 million (six months ended 30th June, 2021: HK\$1.1 million) of COVID-19-related rent concession and a credit of HK\$1.3 million (six months ended 30th June, 2021: Nil) of rent concession during the period for the purpose of entering into a new lease.

Notes to the Interim Financial Statements (Continued)

13. Impairment Losses on Financial Instruments

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Loans and advances to customers	1,822	552
Others	314	29
	<u>2,136</u>	<u>581</u>

14. Net Gain/(Loss) on Disposal of Fixed Assets

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Net gain/(loss) on disposal of a bank premise, furniture, fixtures and equipment	<u>33</u>	<u>(22)</u>

15. Income Tax

Taxation in the consolidated income statement represents:

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Current tax – Hong Kong		
Tax for the period	208	286
Over-provision in respect of prior years	(47)	(60)
	<u>161</u>	<u>226</u>
Current tax – outside Hong Kong		
Tax for the period	151	128
Under/(Over)-provision in respect of prior years	1	(5)
	<u>152</u>	<u>123</u>
Deferred tax		
Origination and reversal of temporary differences	(21)	125
	<u>292</u>	<u>474</u>

The provision for Hong Kong profits tax is calculated at 16.5% (six months ended 30th June, 2021: 16.5%) of the estimated assessable profits for the six months ended 30th June, 2022.

Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Notes to the Interim Financial Statements (Continued)

16. Cash and Balances with Banks

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
Cash in hand	1,030	1,016
Balances with central banks	36,242	37,463
Balances with other banks	17,547	16,612
	54,819	55,091
Less: Impairment allowances	(2)	(3)
– Stage 1	(2)	(3)
– Stage 2	–	–
– Stage 3	–	–
	54,817	55,088

17. Placements with and Advances to Banks

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
Placements with and advances to banks		
Maturing		
– within one month	62,107	73,104
– after one month but within one year	5,022	1,639
– after one year	–	–
	67,129	74,743
Less: Impairment allowances	(1)	(1)
– Stage 1	(1)	(1)
– Stage 2	–	–
– Stage 3	–	–
	67,128	74,742
Of which:		
Placements with and advances to central banks	–	–

Notes to the Interim Financial Statements (Continued)

18. Trade Bills

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
Measured at amortised cost	582	560
Less: Impairment allowances	–	–
– Stage 1	–	–
– Stage 2	–	–
– Stage 3	–	–
	582	560
Measured at FVOCI	2,489	10,212
	3,071	10,772

19. Trading Assets

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	100	–
Debt securities	51	1,632
Equity securities	521	851
	672	2,483

Notes to the Interim Financial Statements (Continued)

20. Loans and Advances to Customers

(a) Loans and advances to customers

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
Loans and advances to customers at amortised cost	551,372	548,808
Less: Impairment allowances	(4,951)	(4,371)
– Stage 1	(702)	(667)
– Stage 2	(838)	(527)
– Stage 3	(3,411)	(3,177)
	546,421	544,437

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

The analysis of gross advances to customers and the percentage of secured advances by industry sector is based on the categories and definitions used by the HKMA.

	30/6/2022		31/12/2021	
	Gross advances	% of gross advances covered by collateral	Gross advances	% of gross advances covered by collateral
	HK\$ Mn	%	HK\$ Mn	%
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	35,222	59.49	34,103	54.12
– Property investment	49,819	91.23	50,280	91.88
– Financial concerns	17,004	58.36	15,514	50.18
– Stockbrokers	1,479	99.98	1,957	99.99
– Wholesale and retail trade	6,595	58.38	7,742	47.86
– Manufacturing	4,608	28.45	4,810	32.51
– Transport and transport equipment	5,121	47.38	5,531	46.15
– Recreational activities	373	91.88	304	87.23
– Information technology	830	2.32	1,268	2.13
– Others	15,976	56.87	15,365	58.85
Sub-total	137,027	69.22	136,874	66.89
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,270	100.00	1,337	100.00
– Loans for the purchase of other residential properties	91,856	100.00	91,532	100.00
– Credit card advances	3,955	0.00	4,284	0.00
– Others	26,777	57.35	28,182	63.75
Sub-total	123,858	87.59	125,335	88.43
Total loans for use in Hong Kong	260,885	77.94	262,209	77.18
Trade finance	6,765	31.05	6,088	32.92
Loans for use outside Hong Kong (Note)	283,722	34.70	280,511	36.83
Total advances to customers	551,372	55.11	548,808	56.07

Note: Loans for use outside Hong Kong include the following loans for use in Mainland China.

Notes to the Interim Financial Statements (Continued)

20. Loans and Advances to Customers (Continued)

(b) Loans and advances to customers – by industry sectors (Continued)

	30/6/2022		31/12/2021	
	Gross advances	% of gross advances covered by collateral	Gross advances	% of gross advances covered by collateral
	HK\$ Mn	%	HK\$ Mn	%
Loans for use in Mainland China				
Industrial, commercial and financial				
– Property development	41,553	32.06	44,747	34.37
– Property investment	12,713	76.09	14,134	80.56
– Financial concerns	48,867	0.28	47,765	0.00
– Wholesale and retail trade	11,207	6.36	10,837	13.94
– Manufacturing	13,109	6.98	11,219	5.76
– Transport and transport equipment	788	40.89	811	43.46
– Recreational activities	–	N/A	25	100.00
– Information technology	2,111	0.29	1,967	0.43
– Others	16,486	12.72	17,618	12.24
Sub-total	146,834	18.51	149,123	21.10
Individuals				
– Loans for the purchase of other residential properties	14,572	100.00	15,762	100.00
– Credit card advances	5,575	0.00	6,370	0.00
– Others	13,641	4.54	12,724	5.28
Sub-total	33,788	44.96	34,856	47.15
Total loans for use in Mainland China	180,622	23.46	183,979	26.03

Notes to the Interim Financial Statements (Continued)

20. Loans and Advances to Customers (Continued)

(b) Loans and advances to customers – by industry sectors (Continued)

Individually impaired loans, as well as relevant information, in respect of industry sectors which constitute 10% or more of total advances to customers of the Group are as follows:

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
(i) Property development		
a. Individually impaired loans	4,170	1,009
b. Specific provisions	1,134	326
c. Collective provisions	550	206
d. New provision charged to income statement	1,315	607
e. Written off	–	87
(ii) Property investment		
a. Individually impaired loans	2,528	2,552
b. Specific provisions	1,047	1,375
c. Collective provisions	64	87
d. New provision charged to income statement	220	1,644
e. Written off	436	12
(iii) Loans for purchase of residential properties		
a. Individually impaired loans	278	270
b. Specific provisions	10	10
c. Collective provisions	17	27
d. New provision charged to income statement	8	146
e. Written off	3	–
(iv) Financial concerns		
a. Individually impaired loans	47	64
b. Specific provisions	30	34
c. Collective provisions	61	43
d. New provision charged to income statement	43	201
e. Written off	–	–

The specific provisions represent lifetime expected credit loss provisions for credited impaired (Stage 3) exposures and the collective provisions represent the 12-month and lifetime expected credit loss provisions for non-credit impaired (Stage 1 and Stage 2) exposures.

Notes to the Interim Financial Statements (Continued)

20. Loans and Advances to Customers (Continued)

(c) *Loans and advances to customers – by geographical areas*

The information concerning the breakdown of the gross amount of advances to customers by countries or geographical areas is derived according to the location of the counterparties after taking into account any transfer of risk in accordance with the requirements of Banking (Disclosure) Rules. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. The location of a party is determined by its residence which is the economic territory under whose laws the party is incorporated or registered. This requirement is different from the allocation under segment reporting in Note 29 which is prepared in a manner consistent with the way in which information is reported internally to the Group's Senior Management. Impaired loans and advances are individually assessed loans with objective evidence of impairment on an individual basis. The specific provisions represent lifetime expected credit loss provisions for credit impaired (Stage 3) exposures and the collective provisions represent the 12-month and lifetime expected credit loss provisions for non-credit impaired (Stage 1 and Stage 2) exposures.

	30/6/2022				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Specific provisions	Collective provisions
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	265,563	456	1,234	548	145
Mainland China	196,704	2,005	7,440	2,861	1,083
Other Asian Countries and Regions	29,000	11	22	2	93
Others	60,105	–	6	–	219
Total	<u>551,372</u>	<u>2,472</u>	<u>8,702</u>	<u>3,411</u>	<u>1,540</u>
% of total advances to customers			<u>1.58%</u>		

Notes to the Interim Financial Statements (Continued)

20. Loans and Advances to Customers (Continued)

(c) Loans and advances to customers – by geographical areas (Continued)

	31/12/2021				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Specific provisions	Collective provisions
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	264,285	409	1,218	254	136
Mainland China	202,365	2,020	4,589	2,822	755
Other Asian Countries and Regions	28,036	22	164	101	62
Others	54,122	–	6	–	241
Total	548,808	2,451	5,977	3,177	1,194
% of total advances to customers			1.09%		

21. Investment Securities

	30/06/2022			
	Mandatorily measured at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	–	21,647	2,427	24,074
Certificates of deposits held	–	–	606	606
Debt securities	3,465	107,303	13,175	123,943
Equity securities	39	893	–	932
Investment funds	916	–	–	916
	4,420	129,843	16,208	150,471

	31/12/2021			
	Mandatorily measured at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	–	22,844	2,025	24,869
Certificates of deposits held	–	–	646	646
Debt securities	4,365	101,968	13,875	120,208
Equity securities	42	712	–	754
Investment funds	1,030	–	–	1,030
	5,437	125,524	16,546	147,507

Notes to the Interim Financial Statements (Continued)

21. Investment Securities (Continued)

Equity securities designated at FVOCI

	30/6/2022		31/12/2021	
	Fair value	Dividend income recognised	Fair value	Dividend income recognised
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Equity investments held for long-term strategic purposes	893	9	712	22

22. Investments in Associates and Joint Ventures

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
Share of net assets	9,008	9,270
Goodwill	460	476
	9,468	9,746
Less: Impairment allowances	(799)	(799)
	8,669	8,947

At 30th June, 2022, the fair value of the Group's investment in AFFIN Bank Berhad ("AFFIN") based on the quoted market price had been persistently below the carrying amount for a period of time. As a result, the Group performed an impairment test on the investment using a value-in-use ("VIU") methodology and this demonstrated that the recoverable amount of the investment was HK\$3,891 million. The recoverable amount was higher than the carrying value of HK\$3,375 million and no further impairment charge was recognised. The VIU calculation uses discounted cash flow projections based on AFFIN's latest forecast of financial results and estimates made by the Group's management for the next five years and extrapolating in perpetuity using a long-term growth rate of 3% to derive a terminal value. A discount rate of 12.08% (31/12/2021: 11.49%), which is based on a Capital Asset Pricing Model calculation for AFFIN, is used in the VIU calculation.

The following table illustrates the impact on the VIU of reasonably possible changes to key assumptions. This reflects the sensitivity of the VIU to each key assumption on its own and it is possible that more than one favourable and/or unfavourable change may occur at the same time.

	Favourable change			Unfavourable change		
	Increase in			Decrease in		
	VIU	VIU		VIU	VIU	
	HK\$ Mn	HK\$ Mn		HK\$ Mn	HK\$ Mn	
At 30th June, 2022						
Discount rate	-50 bps	217	4,108	+50 bps	(194)	3,697
Long-term growth rate	+50 bps	39	3,930	-50 bps	(35)	3,856
Expected cash flows	+10%	389	4,280	-10%	(389)	3,502

Notes to the Interim Financial Statements (Continued)

23. Fixed Assets

	30/6/2022						
	Investment properties	Bank premises	Furniture, fixtures and equipment	Sub-total	Right-of-use assets – Bank premises	Right-of-use assets – Furniture, fixtures and equipment	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Cost or valuation							
At 1st January, 2022	4,992	8,529	6,448	14,977	1,507	23	21,499
Additions	–	1	178	179	222	3	404
Revaluation surplus	3	–	–	–	–	–	3
Disposals	–	(140)	(128)	(268)	–	–	(268)
Remeasurement	–	–	–	–	2	–	2
Expiry/termination of lease contracts	–	–	–	–	(240)	(1)	(241)
Exchange adjustments	(1)	(184)	(103)	(287)	(40)	–	(328)
At 30th June, 2022	4,994	8,206	6,395	14,601	1,451	25	21,071
Accumulated depreciation and amortisation							
At 1st January, 2022	–	2,378	4,584	6,962	682	11	7,655
Charge for the period	–	71	219	290	158	2	450
Expiry/termination of lease contracts	–	–	–	–	(235)	(1)	(236)
Written off on disposal	–	(88)	(110)	(198)	–	–	(198)
Exchange adjustments	–	(62)	(68)	(130)	(14)	1	(143)
At 30th June, 2022	–	2,299	4,625	6,924	591	13	7,528
Net book value at 30th June, 2022	4,994	5,907	1,770	7,677	860	12	13,543
Net book value at 31st December, 2021	4,992	6,151	1,864	8,015	825	12	13,844
The gross amounts of the above assets are stated:							
At cost	–	7,458	6,395	13,853	1,451	25	15,329
At Directors' valuation – 1989	–	748	–	748	–	–	748
At professional valuation – 2022	4,994	–	–	–	–	–	4,994
	4,994	8,206	6,395	14,601	1,451	25	21,071

Notes to the Interim Financial Statements (Continued)

24. Other Assets

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
Accrued interest	2,571	2,649
Customer liabilities under acceptances	34,761	28,674
Other accounts	11,750	9,068
Less: Impairment allowances	(155)	(132)
– Stage 1	(9)	(8)
– Stage 2	(5)	(2)
– Stage 3	(141)	(122)
	48,927	40,259
Assets held for sale (Note 42)	2,062	2,264
	50,989	42,523

25. Financial Liabilities Designated at Fair Value through Profit or Loss

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
Deposits and balances of banks	3,761	3,639
Certificates of deposits issued	25,586	32,618
Debt securities issued	824	620
	30,171	36,877

Financial liabilities above have been designated as at FVTPL when the Group holds related derivatives at FVTPL, and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The amount of change, during the period and cumulatively, in the fair value of financial liabilities designated at FVTPL that is attributable to changes in the credit risk of these liabilities and recognised in other comprehensive income is set out below.

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
Balance at 1st January	(46)	(32)
Recognised in other comprehensive income during the period	82	(18)
Deferred tax	(13)	4
Balance at 30th June/31st December	23	(46)

There was no transfer of cumulative gain or loss within equity due to de-recognition of liabilities designated at FVTPL during first half of 2022 (31/12/2021: Nil).

The change in fair value attributable to changes in credit risk on financial liabilities is calculated using the difference between the fair value of the financial liabilities at the reporting date and the present value computed with adjusted asset swap spread.

The carrying amount of financial liabilities designated as at FVTPL at 30th June, 2022 was HK\$460 million lower than the contractual amount due at maturity (31/12/2021: HK\$46 million lower).

Notes to the Interim Financial Statements (Continued)

26. Trading Liabilities

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
Shares sold	27	5

27. Other Liabilities

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
Accrued interest payable	2,103	1,894
Acceptance draft payable	34,761	28,674
Impairment allowances on financial guarantee contracts issued and loan commitments issued	315	174
– Stage 1	125	133
– Stage 2	126	24
– Stage 3	64	17
Liabilities held for sale (Note 42)	1,658	1,637
Lease liabilities	926	884
Other accounts (Note)	15,878	9,652
	55,641	42,915

Note: Include contract liabilities of HK\$2,519 million (31/12/2021: HK\$2,625 million) from contracts with customers under HKFRS 15.

Notes to the Interim Financial Statements (Continued)

28. Loan Capital

		30/6/2022	31/12/2021
		HK\$ Mn	HK\$ Mn
Subordinated notes/Loss absorbing notes, at amortised cost with fair value hedge adjustments			
USD500 million fixed rate subordinated notes due 22nd April, 2032	(1)	3,847	–
USD250 million fixed rate loss absorbing notes due 7th July, 2028	(2)	1,967	–
Subordinated notes, at amortised cost without hedging			
RMB1,500 million fixed rate subordinated notes due 25th April, 2029	(3)	1,757	1,833
USD600 million fixed rate subordinated notes due 29th May, 2030	(4)	4,687	4,655
		<u>12,258</u>	<u>6,488</u>

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities during the period/year ended 30th June, 2022 and 31st December, 2021.

- (1) Loan capital with face value of HK\$3,923 million (US\$500 million) and carrying amount of HK\$3,847 million represents subordinated notes carrying a coupon rate of 4.875% p.a. qualifying as Tier 2 capital and meeting the loss-absorbing capacity requirements issued on 22nd April, 2022 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 22nd April, 2032 and are callable on 22nd April, 2027. The notes are under fair value hedge accounting and hedge ineffectiveness of HK\$4 million profit was recorded in first half of 2022.
- (2) Loan capital with face value of HK\$1,961 million (US\$250 million) and carrying amount of HK\$1,967 million represents non-preferred loss-absorbing capacity notes carrying a coupon rate of 5.125% p.a. and meeting the loss-absorbing capacity requirements issued on 7th July, 2022 (traded on 28th June, 2022) by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 7th July, 2028 and are callable on 7th July, 2027. The notes are under fair value hedge accounting.
- (3) Loan capital with face value of HK\$1,758 million (RMB1,500 million) and carrying amount of HK\$1,757 million (31/12/2021: HK\$1,833 million) represents subordinated notes carrying a coupon of 4.94% p.a. issued on 25th April, 2019 by the Bank's subsidiary, The Bank of East Asia (China) Limited. The notes will mature on 25th April, 2029 and are callable on 25th April, 2024.
- (4) Loan capital with face value of HK\$4,707 million (US\$600 million) and carrying amount of HK\$4,687 million (31/12/2021: HK\$4,655 million) represents subordinated notes carrying a coupon of 4% p.a. qualifying as Tier 2 capital and meeting the loss-absorbing capacity requirements issued on 29th May, 2020 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 29th May, 2030 and are callable on 29th May, 2025.

Notes to the Interim Financial Statements (Continued)

29. Segment Reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's Senior Management for the purposes of resource allocation and performance assessment, the Group has presented the following nine reportable segments.

Hong Kong operations

Hong Kong operations include Hong Kong banking business and other business operations, dividing into the following six reportable segments.

- **Personal Banking** includes branch operations, personal internet banking, consumer finance, property loans and credit card business to individual customers in Hong Kong.
- **Wholesale Banking** includes corporate lending and loan syndication, asset based lending, commercial lending, securities lending and trade financing activities with correspondent banks and corporates in Hong Kong.
- **Treasury Markets** include treasury operations and securities dealing in Hong Kong.
- **Wealth management** includes private banking business, investment products & advisory and securities & futures broking in Hong Kong.
- **Centralised operations** include supporting units of banking operations in Hong Kong.
- **Others** mainly include insurance business, trust business and corporate financial advisory carried out by subsidiaries operating in Hong Kong and other supporting units of Hong Kong operations located outside Hong Kong.

Mainland operations

Mainland China operations mainly include the back office unit for Mainland China operations in Hong Kong, all subsidiaries and associates operating in Mainland China, except those subsidiaries carrying out data processing and other back office operations for Hong Kong operations in Mainland China.

Overseas operations

Overseas operations mainly include the back office unit for overseas banking operations in Hong Kong, Macau Branch, Taiwan Branch and all branches, subsidiaries and associates operating in overseas.

Corporate management

Corporate management absorbs the regulatory capital cost of loan capital issued by the Bank and receives, from Hong Kong operations, the interest income on business activities funded by capital instruments issued by the Bank.

For the purposes of assessing segment performance and allocating resources among segments, the Group's Senior Management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all assets with the exception of interests in associates and joint ventures and assets held for sale. Segment liabilities include deposits, financial liabilities and other liabilities attributable to the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to interest and fee and commission income generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Notes to the Interim Financial Statements (Continued)

29. Segment Reporting (Continued)

	Hong Kong operations											
	Hong Kong banking business							Mainland China operations	Overseas operations	Corporate management	Inter-segment elimination	Total
	Personal banking	Wholesale banking	Treasury markets	Wealth management	Centralised operations	Total	Others					
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
6 months ended 30th June, 2022												
Net interest income/(expense)	1,220	1,393	(22)	156	(21)	2,726	14	2,740	1,948	993	149	5,830
Non-interest income	584	327	31	331	120	1,393	352	1,745	498	59	–	2,288
Operating income	1,804	1,720	9	487	99	4,119	366	4,485	2,446	1,052	149	8,118
Operating expenses	(782)	(225)	(98)	(164)	(1,090)	(2,359)	(178)	(2,537)	(1,512)	(371)	–	(4,406)
Operating profit/(loss) before impairment losses	1,022	1,495	(89)	323	(991)	1,760	188	1,948	934	681	149	3,712
Impairment losses on financial instruments	(45)	(1,116)	(46)	–	–	(1,207)	–	(1,207)	(990)	61	–	(2,136)
Operating profit/(loss) after impairment losses	977	379	(135)	323	(991)	553	188	741	(56)	742	149	1,576
Net gain/(loss) on disposal of fixed assets	(11)	–	–	–	–	(11)	–	(11)	44	–	–	33
Valuation gains on investment properties	–	–	–	–	3	3	–	3	–	–	–	3
Share of profits less losses of associates and joint ventures	–	–	–	–	–	–	(5)	(5)	(3)	198	–	190
Profit/(Loss) before taxation	966	379	(135)	323	(988)	545	183	728	(15)	940	149	1,802
Depreciation for the period	(131)	(6)	(6)	(3)	(111)	(257)	(15)	(272)	(149)	(29)	–	(450)
At 30th June, 2022												
Segment assets	119,735	167,567	238,600	25,067	11,989	562,958	2,143	565,101	254,556	123,751	–	897,480
Investments in associates and joint ventures	–	–	–	–	–	–	60	60	3,820	4,789	–	8,669
Other assets – Assets held for sale	–	–	–	–	15	15	2,031	2,046	16	–	–	2,062
Total assets	119,735	167,567	238,600	25,067	12,004	562,973	4,234	567,207	258,392	128,540	–	908,211
Segment liabilities	338,097	63,765	68,029	31,674	1,920	503,485	328	503,813	227,953	113,576	–	800,228
Other liabilities – Liabilities held for sale	–	–	–	–	–	–	1,658	1,658	–	–	–	1,658
Total liabilities	338,097	63,765	68,029	31,674	1,920	503,485	1,986	505,471	227,953	113,576	–	801,886

Notes to the Interim Financial Statements (Continued)

29. Segment Reporting (Continued)

	Hong Kong operations (Restated) ^{Note}												
	Hong Kong banking business												
	Personal banking	Wholesale banking	Treasury markets	Wealth management	Centralised operations	Total	Others	Total	Mainland China operations (Restated) ^{Note}	Overseas operations	Corporate management	Inter-segment elimination	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
6 months ended 30th June, 2021													
Net interest income/(expense)	1,130	1,177	60	172	(10)	2,529	46	2,575	1,962	828	158	–	5,523
Non-interest income	565	327	393	389	155	1,829	515	2,344	450	117	–	(19)	2,892
Operating income	1,695	1,504	453	561	145	4,358	561	4,919	2,412	945	158	(19)	8,415
Operating expenses	(844)	(181)	(87)	(158)	(1,075)	(2,345)	(208)	(2,553)	(1,738)	(375)	–	19	(4,647)
Operating profit/(loss) before impairment losses	851	1,323	366	403	(930)	2,013	353	2,366	674	570	158	–	3,768
Impairment losses on financial instruments	(56)	(189)	(7)	(2)	–	(254)	(4)	(258)	(317)	(6)	–	–	(581)
Operating profit/(loss) after impairment losses	795	1,134	359	401	(930)	1,759	349	2,108	357	564	158	–	3,187
Net loss on disposal of fixed assets	(8)	–	–	–	(2)	(10)	–	(10)	(12)	–	–	–	(22)
Valuation losses on investment properties	–	–	–	–	(101)	(101)	(22)	(123)	–	–	–	–	(123)
Share of profits less losses of associates and joint ventures	–	–	–	–	–	–	(1)	(1)	84	46	–	–	129
Profit/(Loss) before taxation	787	1,134	359	401	(1,033)	1,648	326	1,974	429	610	158	–	3,171
Depreciation for the period	(160)	(4)	(4)	(4)	(112)	(284)	(19)	(303)	(149)	(33)	–	–	(485)
At 31st December, 2021													
Segment assets	119,858	169,032	229,919	26,605	11,392	556,806	2,185	558,991	262,575	118,789	–	(44,096)	896,259
Investments in associates and joint ventures	–	–	–	–	–	–	66	66	3,983	4,898	–	–	8,947
Other assets – Assets held for sale	–	–	–	–	15	15	2,232	2,247	17	–	–	–	2,264
Total assets	119,858	169,032	229,919	26,605	11,407	556,821	4,483	561,304	266,575	123,687	–	(44,096)	907,470
Segment liabilities	331,601	58,997	65,994	29,886	2,244	488,722	384	489,106	234,937	109,059	–	(43,319)	789,783
Other liabilities – Liabilities held for sale	–	–	–	–	–	–	1,637	1,637	–	–	–	–	1,637
Total liabilities	331,601	58,997	65,994	29,886	2,244	488,722	2,021	490,743	234,937	109,059	–	(43,319)	791,420

Note: The financials of Hong Kong operations and Mainland China operations have been restated to conform to the current period's presentation that reflected the organisation restructure which took place in 2022.

Notes to the Interim Financial Statements (Continued)

30. Analysis of Assets and Liabilities by Remaining Maturity

	30/6/2022							
	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets								
Cash and balances with banks	44,272	–	–	–	–	–	10,545	54,817
Placements with and advances to banks	–	62,107	4,787	234	–	–	–	67,128
Trade bills	–	1,642	691	738	–	–	–	3,071
Trading assets	–	–	100	–	8	43	521	672
Derivative assets	–	–	–	–	–	–	8,783	8,783
Loans and advances to customers	2,898	74,407	39,506	130,918	183,708	111,073	3,911	546,421
Investment securities	–	7,646	12,127	18,476	65,639	44,773	1,810	150,471
Investments in associates and joint ventures	–	–	–	–	–	–	8,669	8,669
Fixed assets	–	–	–	–	–	–	13,543	13,543
Goodwill and intangible assets	–	–	–	–	–	–	1,878	1,878
Deferred tax assets	–	–	–	–	–	–	1,769	1,769
Other assets	48	12,169	10,211	19,053	1,114	1,066	7,328	50,989
Total assets	47,218	157,971	67,422	169,419	250,469	156,955	58,757	908,211
Liabilities								
Deposits and balances of banks	1,683	13,178	13,817	5,853	–	–	–	34,531
Deposits from customers	256,161	96,824	144,640	132,856	14,083	–	–	644,564
– Demand deposits and current accounts	69,500	–	–	–	–	–	–	69,500
– Savings deposits	184,981	–	–	–	–	–	–	184,981
– Time, call and notice deposits	1,680	96,824	144,640	132,856	14,083	–	–	390,083
Trading liabilities	–	–	–	–	–	–	27	27
Derivative liabilities	–	–	–	–	–	–	3,651	3,651
Certificates of deposit issued	–	8,824	8,905	22,002	6,926	–	–	46,657
Current taxation	–	–	–	1,144	–	–	–	1,144
Debt securities issued	–	–	–	1,647	1,500	–	–	3,147
Deferred tax liabilities	–	–	–	–	–	–	266	266
Other liabilities	1,126	8,734	10,386	19,834	1,553	1,948	12,060	55,641
– Lease liabilities	2	24	42	189	437	232	–	926
– Other accounts	1,124	8,710	10,344	19,645	1,116	1,716	12,060	54,715
Loan capital	–	–	–	–	10,291	1,967	–	12,258
Total liabilities	258,970	127,560	177,748	183,336	34,353	3,915	16,004	801,886
Net gap	(211,752)	30,411	(110,326)	(13,917)	216,116	153,040		

Notes to the Interim Financial Statements (Continued)

30. Analysis of Assets and Liabilities by Remaining Maturity (Continued)

	31/12/2021							
	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets								
Cash and balances with banks	43,103	–	–	–	–	–	11,985	55,088
Placements with and advances to banks	–	73,103	1,639	–	–	–	–	74,742
Trade bills	–	2,596	5,553	2,623	–	–	–	10,772
Trading assets	–	122	–	–	1,424	86	851	2,483
Derivative assets	–	–	–	–	–	–	3,381	3,381
Loans and advances to customers	2,507	69,226	31,993	119,963	198,315	120,417	2,016	544,437
Investment securities	–	5,123	3,468	29,833	66,365	40,975	1,743	147,507
Investments in associates and joint ventures	–	–	–	–	–	–	8,947	8,947
Fixed assets	–	–	–	–	–	–	13,844	13,844
Goodwill and intangible assets	–	–	–	–	–	–	1,885	1,885
Deferred tax assets	–	–	–	–	–	–	1,861	1,861
Other assets	49	5,380	6,710	20,765	1,152	1,216	7,251	42,523
Total assets	<u>45,659</u>	<u>155,550</u>	<u>49,363</u>	<u>173,184</u>	<u>267,256</u>	<u>162,694</u>	<u>53,764</u>	<u>907,470</u>
Liabilities								
Deposits and balances of banks	5,237	7,986	8,540	10,003	–	–	–	31,766
Deposits from customers	277,711	95,546	164,176	86,374	9,698	–	–	633,505
– Demand deposits and current accounts	79,657	–	–	–	–	–	–	79,657
– Savings deposits	196,662	–	–	–	–	–	–	196,662
– Time, call and notice deposits	1,392	95,546	164,176	86,374	9,698	–	–	357,186
Trading liabilities	–	–	–	–	–	–	5	5
Derivative liabilities	–	–	–	–	–	–	5,050	5,050
Certificates of deposit issued	–	7,565	11,652	35,600	9,510	–	–	64,327
Current taxation	–	–	–	958	–	–	–	958
Debt securities issued	–	–	3,058	234	2,555	–	–	5,847
Deferred tax liabilities	–	–	–	–	–	–	559	559
Other liabilities	1,007	3,542	7,139	20,929	1,490	2,039	6,769	42,915
– Lease liabilities	1	29	49	183	434	188	–	884
– Other accounts	1,006	3,513	7,090	20,746	1,056	1,851	6,769	42,031
Loan capital	–	–	–	–	6,488	–	–	6,488
Total liabilities	<u>283,955</u>	<u>114,639</u>	<u>194,565</u>	<u>154,098</u>	<u>29,741</u>	<u>2,039</u>	<u>12,383</u>	<u>791,420</u>
Net gap	(238,296)	40,911	(145,202)	19,086	237,515	160,655		

Notes to the Interim Financial Statements (Continued)

31. 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:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation HK\$ Mn	Revaluation of properties HK\$ Mn	Impairment losses on financial assets HK\$ Mn	Revaluation of financial assets at FVOCI HK\$ Mn	Tax losses HK\$ Mn	Others HK\$ Mn	Total HK\$ Mn
At 31st December, 2021/ 1st January, 2022	339	109	(1,515)	282	(303)	(214)	(1,302)
Charged/(Credited) to income statement	18	–	(246)	–	183	24	(21)
Charged/(Credited) to reserve	–	(1)	–	(263)	–	13	(251)
Transfer to assets held for sale	–	–	–	–	–	2	2
Exchange and other adjustments	1	–	57	(1)	8	4	69
At 30th June, 2022	358	108	(1,704)	18	(112)	(171)	(1,503)

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	30/6/2022 HK\$ Mn	31/12/2021 HK\$ Mn
Net deferred tax assets recognised on the statement of financial position	(1,769)	(1,861)
Net deferred tax liabilities recognised on the statement of financial position	266	559
	(1,503)	(1,302)

32. Reserves

	30/6/2022 HK\$ Mn	31/12/2021 HK\$ Mn
General reserve	13,658	13,658
Revaluation reserve on bank premises	1,906	1,905
Capital reserve	895	895
Exchange revaluation reserve	(772)	1,058
Capital reserve – staff share options issued	139	152
Fair value reserve	569	1,925
Liability credit reserve	23	(46)
Other reserves	5,229	5,191
Retained profits (Note ⁽¹⁾ , ⁽²⁾)	32,530	35,395
	54,177	60,133
Proposed dividends, not provided for	430	1,023

Notes to the Interim Financial Statements (Continued)

32. Reserves (Continued)

Notes:

- (1) In accordance with the resolution passed at the extraordinary general meeting of the Bank held on 28th March, 2022, the Bank executed a share buy-back deed with Elliott Investment Management's affiliate entities on 28th March, 2022 to repurchase 247 million shares of the Bank. The share buy-back transaction was completed on 11th April, 2022 at a consideration of HK\$2,904 million. Together with the direct transaction cost of HK\$12 million, a total amount of HK\$2,916 million were accounted for as deduction from retained profits.
- (2) A regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances and investments in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the HKMA. As at 30th June, 2022, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Bank to shareholders by HK\$2,327 million (31/12/2021: HK\$2,658 million).

33. Additional Equity Instruments

		30/6/2022	31/12/2021
		HK\$ Mn	HK\$ Mn
Additional Tier 1 Capital Securities			
USD500 million undated non-cumulative subordinated capital securities	(1)	–	3,878
USD650 million undated non-cumulative subordinated capital securities	(2)	5,069	5,069
USD650 million undated non-cumulative subordinated capital securities	(3)	5,021	5,021
		<u>10,090</u>	<u>13,968</u>

- (1) On 18th May, 2017, the Bank issued undated non-cumulative subordinated capital securities ("Additional Tier 1 Capital Securities") with a face value of US\$500 million (equivalent to HK\$3,878 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.625% per annum coupon until the first call date on 18th May, 2022. The Bank fully redeemed the Additional Tier 1 Capital Securities on 18th May 2022.
- (2) On 19th September, 2019, the Bank issued undated non-cumulative subordinated capital securities ("Additional Tier 1 Capital Securities") with a face value of US\$650 million (equivalent to HK\$5,069 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.875% per annum coupon until the first call date on 19th September, 2024. The coupon will be reset every five years, if the Additional Tier 1 Capital Securities are not redeemed, to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 4.257% per annum. The coupon payments may be cancelled at the sole discretion of the Bank. The Additional Tier 1 Capital Securities will be written down if a non-viability event occurs and is continuing. They rank higher than ordinary shares in the event of a winding-up, and meet the loss-absorbing capacity requirements.
- (3) On 21st October, 2020, the Bank issued undated non-cumulative subordinated capital securities ("Additional Tier 1 Capital Securities") with a face value of US\$650 million (equivalent to HK\$5,021 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.825% per annum coupon until the first call date on 21st October, 2025. The coupon will be reset every five years, if the Additional Tier 1 Capital Securities are not redeemed, to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 5.527% per annum. The coupon payments may be cancelled at the sole discretion of the Bank. The Additional Tier 1 Capital Securities will be written down if a non-viability event occurs and is continuing. They rank higher than ordinary shares in the event of a winding-up, and meet the loss-absorbing capacity requirements.

Notes to the Interim Financial Statements (Continued)

34. Consolidated Cash Flow Statement

Cash and cash equivalents

	30/6/2022 HK\$ Mn	30/6/2021 HK\$ Mn
(i) Components of cash and cash equivalents in the consolidated cash flow statement		
Cash and balances with banks with original maturity within three months	44,365	45,900
Placements with and advances to banks with original maturity within three months	65,084	47,579
Treasury bills with original maturity within three months	10,088	3,767
Certificates of deposit held with original maturity within three months	–	480
Debt securities with original maturity within three months	606	921
Add: Cash and balances with banks included in “Assets held for sale” (Note 42)	3	–
	<u>120,146</u>	<u>98,647</u>
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks	54,817	60,370
Placements with and advances to banks	67,128	50,728
Treasury bills, certificates of deposit held and debt securities		
– trading assets	151	3,050
– investment securities	148,623	138,867
	<u>148,774</u>	<u>141,917</u>
Add: Cash and balances with banks included in “Assets held for sale” (Note 42)	3	–
Certificates of deposits held – investment securities included in “Assets held for sale” (Note 42)	638	–
Debt securities – investment securities included in “Assets held for sale” (Note 42)	918	25,376
	<u>918</u>	<u>25,376</u>
Amount shown in the consolidated statement of financial position	272,278	278,391
Less: Amounts with an original maturity of beyond three months	(141,678)	(165,244)
Cash balance with central bank subject to regulatory restriction	(10,454)	(14,500)
	<u>(10,454)</u>	<u>(14,500)</u>
Cash and cash equivalents in the consolidated cash flow statement	<u>120,146</u>	<u>98,647</u>

Notes to the Interim Financial Statements (Continued)

35. Fair Values of Financial Instruments

(a) *Financial instruments carried at fair value*

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values using the following hierarchy of methods:

Level 1 – Quoted market price in an active market for an identical instrument.

Level 2 – Valuation techniques based on observable input. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect 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 counterparty quotations. For all other financial instruments the Group determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models and various market recognised option pricing models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, equity prices, foreign currency exchange rates, index prices, historical or implied volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price of the financial instrument that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the reporting date.

The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments, like interest rate and currency swaps that use only observable market data and require little management 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 derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. 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.

For more complex instruments, the Group uses valuation models, which usually are developed from recognised valuation methodologies. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The Group has an established control framework with respect to the measurement of fair values. This framework includes a valuation control function, namely Financial Instruments Valuation Group ("FIVG") which comprises control units independent of front office management. Procedures for price verification have been established. Any pricing models to be used would be subject to a rigorous validation and approval process.

Notes to the Interim Financial Statements (Continued)

35. Fair Values of Financial Instruments (Continued)

(a) Financial instruments carried at fair value (Continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised.

	30/6/2022				31/12/2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<u>Recurring fair value measurement</u>								
Assets								
Trade Bills – Measured at FVOCI	–	2,489	–	2,489	–	10,212	–	10,212
Trading assets	621	51	–	672	851	1,632	–	2,483
Derivative assets	525	8,258	–	8,783	146	3,235	–	3,381
Investment securities								
– Mandatorily measured at FVTPL	–	3,670	750	4,420	2	4,627	808	5,437
– Measured at FVOCI	23,885	105,065	893	129,843	25,083	99,729	712	125,524
	<u>25,031</u>	<u>119,533</u>	<u>1,643</u>	<u>146,207</u>	<u>26,082</u>	<u>119,435</u>	<u>1,520</u>	<u>147,037</u>
Investment securities classified as assets held for sale								
– Mandatorily measured at FVTPL	40	23	–	63	50	26	–	76
– Measured at FVOCI	–	1,533	–	1,533	–	1,850	–	1,850
	<u>40</u>	<u>1,556</u>	<u>–</u>	<u>1,596</u>	<u>50</u>	<u>1,876</u>	<u>–</u>	<u>1,926</u>
Liabilities								
Trading liabilities	27	–	–	27	5	–	–	5
Derivative liabilities	3	3,648	–	3,651	98	4,952	–	5,050
Financial liabilities designated at FVTPL	–	30,171	–	30,171	–	36,877	–	36,877
	<u>30</u>	<u>33,819</u>	<u>–</u>	<u>33,849</u>	<u>103</u>	<u>41,829</u>	<u>–</u>	<u>41,932</u>

During the period ended 30th June, 2022 and year ended 31st December, 2021, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Notes to the Interim Financial Statements (Continued)

35. Fair Values of Financial Instruments (Continued)

(a) Financial instruments carried at fair value (Continued)

Information about significant unobservable inputs in Level 3 valuations:

	Valuation technique	Significant unobservable input(s)	Value or range
Unlisted debt securities, equity securities and investment funds	Counterparty quote	N/A	N/A
	Net asset value	N/A	N/A
	Discounted cash flow model	Discount rate	30/6/2022: 12.4% (31/12/2021: 15.3%)
		Marketability discount	30/6/2022: 20% (31/12/2021: 20%)
	Market-comparable approach	Earnings multiple	30/6/2022: 13.42 – 29.34 (31/12/2021: 21.98 – 36.67)
		EV/EBIT	30/6/2022: 24.07 – 28.56 (31/12/2021: 30.18 – 37.54)
		Marketability discount	30/6/2022: 50% (31/12/2021: 50%)

The fair values of unlisted equity instruments mandatorily measured at FVTPL or measured at FVOCI are estimated using the discounted cash flow model, on the basis of an analysis of the investee's financial position and results, or with reference to multiples of comparable listed companies, adjusted for a marketability discount to reflect the fact that the shares are not actively traded. An increase in the ratio/investee's financial position and results in isolation will result in favourable movement in the fair values, while an increase in discount rate/marketability discount in isolation will result in unfavourable movement. The fair value of the unlisted investment funds are estimated by using the net asset valuations ("NAV") provided by the managers of the funds.

Valuation of financial instruments in Level 3 are subject to the same valuation control framework as described above and reviewed regularly by FIVG.

Notes to the Interim Financial Statements (Continued)

35. Fair Values of Financial Instruments (Continued)

(a) Financial instruments carried at fair value (Continued)

- (1) Valuation of financial instruments with significant unobservable inputs

Movements in the recognised fair values of instruments with significant unobservable inputs were as follows:

	30/6/2022		31/12/2021	
	Investment securities mandatorily measured at FVTPL	Investment securities measured at FVOCI	Investment securities mandatorily measured at FVTPL	Investment securities measured at FVOCI
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets				
At 1st January	808	712	850	1,283
Additions/Purchases	24	–	413	–
Disposals/Settlements	(22)	–	(484)	–
Changes in fair value recognised in the income statement	(60)	–	29	–
Changes in fair value recognised in the other comprehensive income	–	181	–	(571)
At 30th June/31st December	<u>750</u>	<u>893</u>	<u>808</u>	<u>712</u>
Total gains/(losses) for the period included in FVOCI fair value reserve of the other comprehensive income for assets held at the end of the reporting period	<u>–</u>	<u>181</u>	<u>–</u>	<u>(571)</u>
Total (losses)/gains for the period included in the income statement for assets held at the end of the reporting period recorded in net results from other financial instruments at FVTPL	<u>(60)</u>	<u>–</u>	<u>29</u>	<u>–</u>

Notes to the Interim Financial Statements (Continued)

35. Fair Values of Financial Instruments (Continued)

(a) Financial instruments carried at fair value (Continued)

- (2) Effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions

		30/6/2022			
		Effect recorded in profit or loss Favourable	(Unfavourable)	Effect recorded directly in equity Favourable	(Unfavourable)
		HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Financial assets					
Investment securities					
mandatorily measured					
at FVTPL	63	(63)		–	–
Investment securities					
measured at FVOCI	–	–		75	(75)
	<u>63</u>	<u>(63)</u>		<u>75</u>	<u>(75)</u>
		31/12/2021			
		Effect recorded in profit or loss Favourable	(Unfavourable)	Effect recorded directly in equity Favourable	(Unfavourable)
		HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Financial assets					
Investment securities					
mandatorily measured					
at FVTPL	67	(67)		–	–
Investment securities					
measured at FVOCI	–	–		59	(59)
	<u>67</u>	<u>(67)</u>		<u>59</u>	<u>(59)</u>

The fair values of financial instruments are in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The table above shows the sensitivity of fair values due to parallel movement of plus or minus 10 per cent in reasonably possible alternative assumptions.

Notes to the Interim Financial Statements (Continued)

35. Fair Values of Financial Instruments (Continued)

(b) Fair values of financial instruments carried at other than fair value

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented below:

- (i) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the end of the reporting period.
- (ii) The fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances from both the carrying amount and fair value.
- (iii) The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.
- (iv) The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30th June, 2022 and 31st December, 2021 except as follows:

	30/6/2022		31/12/2021	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Financial assets				
Investment securities measured at amortised cost	16,208	15,587	16,546	16,610

Notes to the Interim Financial Statements (Continued)

36. Credit Risk

The Group's stage allocation can be matched to the HKMA's 5-Grade Asset classification as follows:

HKMA's 5-Grade Asset Classification		Stage allocation
Pass	General (i.e. do not meet the Bank's criteria of "Significant Increase of Credit Risk")	1
	Meet the Bank's criteria of "Significant Increase of Credit Risk"	2
Special Mention		2
Substandard		3
Doubtful		
Loss		

The criteria of "significant increase of credit risk" has taken into consideration of three key factors:

- The exposure has a significant deterioration of internal or external rating as compared with the rating at the time when the exposure was originated;
- Being Special Mention under HKMA classification; and
- The rating of the exposure falls out of the "Low-Credit Risk Threshold" that is equivalent to the globally understood definition of "investment grade".

(a) Credit Quality Analysis

Credit quality of loans and advances

The following tables set out information about the credit quality of loans and advances to customers. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

	30/6/2022							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Loans and advances to customers at amortised cost								
– Grades 1 - 15: Pass	512,778	976	15,832	27	–	–	528,610	1,003
– Grades 16 - 17: Special Mention	–	–	14,059	58	–	–	14,059	58
– Grade 18: Substandard	–	–	–	–	6,492	30	6,492	30
– Grade 19: Doubtful	–	–	–	–	1,409	53	1,409	53
– Grade 20: Loss	–	–	–	–	802	18	802	18
Total gross carrying amount	512,778	976	29,891	85	8,703	101	551,372	1,162
Impairment allowances	(702)	(3)	(838)	(3)	(3,411)	(63)	(4,951)	(69)
Carrying amount	<u>512,076</u>	<u>973</u>	<u>29,053</u>	<u>82</u>	<u>5,292</u>	<u>38</u>	<u>546,421</u>	<u>1,093</u>
Market value of collateral held against impaired loans and advances to customers					3,683			

Notes to the Interim Financial Statements (Continued)

36. Credit Risk (Continued)

(a) Credit Quality Analysis (Continued)

Credit quality of loans and advances (Continued)

	31/12/2021							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Loans and advances to customers at amortised cost								
– Grades 1 - 15: Pass	512,975	1,001	23,845	58	–	–	536,820	1,059
– Grades 16 - 17: Special Mention	–	–	6,011	16	–	–	6,011	16
– Grade 18: Substandard	–	–	–	–	4,324	24	4,324	24
– Grade 19: Doubtful	–	–	–	–	1,563	50	1,563	50
– Grade 20: Loss	–	–	–	–	90	4	90	4
Total gross carrying amount	512,975	1,001	29,856	74	5,977	78	548,808	1,153
Impairment allowances	(667)	(3)	(527)	(1)	(3,177)	(54)	(4,371)	(58)
Carrying amount	<u>512,308</u>	<u>998</u>	<u>29,329</u>	<u>73</u>	<u>2,800</u>	<u>24</u>	<u>544,437</u>	<u>1,095</u>
Market value of collateral held against impaired loans and advances to customers					<u>3,656</u>			

Collateral includes any tangible security that carries a fair market value and is readily marketable. This includes (but is not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets such as plant and equipment. Where collateral values are greater than gross loans and advances to customers, only the amount of collateral up to the gross loans and advances is included.

Notes to the Interim Financial Statements (Continued)

36. Credit Risk (Continued)

(a) Credit Quality Analysis (Continued)

Credit quality of financial assets other than loans and advances

The following tables set out the credit analysis for financial assets other than loans and advances to customers, measured at amortised cost and FVOCI. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts/fair value. For loan commitment and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

		30/6/2022							
		12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
		Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
		HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Trade bills measured at amortised cost									
– Grades 1 - 15: Pass		582	1	–	–	–	–	582	1
Total gross carrying amount		582	1	–	–	–	–	582	1
Impairment allowances		–	–	–	–	–	–	–	–
Carrying amount		582	1	–	–	–	–	582	1
		31/12/2021							
		12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
		Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
		HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Trade bills measured at amortised cost									
– Grades 1 - 15: Pass		560	–	–	–	–	–	560	–
Total gross carrying amount		560	–	–	–	–	–	560	–
Impairment allowances		–	–	–	–	–	–	–	–
Carrying amount		560	–	–	–	–	–	560	–

Notes to the Interim Financial Statements (Continued)

36. Credit Risk (Continued)

(a) Credit Quality Analysis (Continued)

Credit quality of financial assets other than loans and advances (Continued)

		30/6/2022							
		12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
		Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
		HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Trade bills measured at FVOCI									
– Grades 1 - 15: Pass		2,452	–	37	–	–	–	2,489	–
Total carrying amount at fair value		2,452	–	37	–	–	–	2,489	–
Impairment allowances		–	–	–	–	–	–	–	–
		31/12/2021							
		12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
		Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
		HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Trade bills measured at FVOCI									
– Grades 1 - 15: Pass		10,212	–	–	–	–	–	10,212	–
Total carrying amount at fair value		10,212	–	–	–	–	–	10,212	–
Impairment allowances		(2)	–	–	–	–	–	(2)	–

Notes to the Interim Financial Statements (Continued)

36. Credit Risk (Continued)

(a) Credit Quality Analysis (Continued)

Credit quality of financial assets other than loans and advances (Continued)

	30/6/2022							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Placements with and advances to banks – Grades 1 - 15: Pass	67,129	30	–	–	–	–	67,129	30
Total gross carrying amount	67,129	30	–	–	–	–	67,129	30
Impairment allowances	(1)	–	–	–	–	–	(1)	–
Carrying amount	67,128	30	–	–	–	–	67,128	30
	31/12/2021							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Placements with and advances to banks – Grades 1 - 15: Pass	74,743	10	–	–	–	–	74,743	10
Total gross carrying amount	74,743	10	–	–	–	–	74,743	10
Impairment allowances	(1)	–	–	–	–	–	(1)	–
Carrying amount	74,742	10	–	–	–	–	74,742	10

Notes to the Interim Financial Statements (Continued)

36. Credit Risk (Continued)

(a) Credit Quality Analysis (Continued)

Credit quality of financial assets other than loans and advances (Continued)

	30/6/2022			
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	HK\$ Mn	not credit-impaired	credit-impaired	HK\$ Mn
Loan commitments				
– Grades 1 - 15: Pass	291,006	2,623	–	293,629
– Grades 16 - 17: Special Mention	–	64	–	64
– Grade 18: Substandard	–	–	40	40
Total	291,006	2,687	40	293,733
Impairment allowances	(115)	(9)	–	(124)
Financial guarantee contracts				
– Grades 1 - 15: Pass	13,401	456	–	13,857
– Grades 16 - 17: Special Mention	–	118	–	118
– Grade 18: Substandard	–	–	606	606
Total	13,401	574	606	14,581
Impairment allowances	(10)	(117)	(64)	(191)
	31/12/2021			
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	HK\$ Mn	not credit-impaired	credit-impaired	HK\$ Mn
Loan commitments				
– Grades 1 - 15: Pass	261,879	2,999	–	264,878
– Grades 16 - 17: Special Mention	–	31	–	31
– Grade 18: Substandard	–	–	1	1
Total	261,879	3,030	1	264,910
Impairment allowances	(126)	(17)	–	(143)
Financial guarantee contracts				
– Grades 1 - 15: Pass	21,433	2,393	–	23,826
– Grades 16 - 17: Special Mention	–	–	–	–
– Grade 18: Substandard	–	–	320	320
Total	21,433	2,393	320	24,146
Impairment allowances	(7)	(7)	(17)	(31)

Notes to the Interim Financial Statements (Continued)

36. Credit Risk (Continued)

(a) Credit Quality Analysis (Continued)

Credit quality of financial assets other than loans and advances (Continued)

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate and bank lending risk and risk gradings are applied to the counterparties with individual counterparty limits set.

At the end of the reporting period, the credit quality of investment in debt securities analysed by designation of external credit assessment institution, Moody's Investor Services, or equivalent, is as follows:

	30/6/2022							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt investment securities measured at amortised cost								
Aaa	–	–	–	–	–	–	–	–
Aa1 to Aa3	3,235	1	–	–	–	–	3,235	1
A1 to A3	4,203	42	–	–	–	–	4,203	42
Baa1 to Baa3	2,175	19	179	1	–	–	2,354	20
Below Baa3	549	7	934	17	132	3	1,615	27
Unrated	5,046	58	–	–	–	–	5,046	58
Total gross carrying amount	15,208	127	1,113	18	132	3	16,453	148
Impairment allowances	(80)	(1)	(100)	(2)	(65)	(3)	(245)	(6)
Carrying amount	15,128	126	1,013	16	67	–	16,208	142
	31/12/2021							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt investment securities measured at amortised cost								
Aaa	–	–	–	–	–	–	–	–
Aa1 to Aa3	2,680	–	–	–	–	–	2,680	–
A1 to A3	4,363	80	–	–	–	–	4,363	80
Baa1 to Baa3	2,464	21	–	–	–	–	2,464	21
Below Baa3	1,223	17	524	12	–	–	1,747	29
Unrated	5,433	61	–	–	–	–	5,433	61
Total gross carrying amount	16,163	179	524	12	–	–	16,687	191
Impairment allowances	(97)	(1)	(44)	(1)	–	–	(141)	(2)
Carrying amount	16,066	178	480	11	–	–	16,546	189

Notes to the Interim Financial Statements (Continued)

36. Credit Risk (Continued)

(a) Credit Quality Analysis (Continued)

Credit quality of financial assets other than loans and advances (Continued)

	30/6/2022							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt investment securities measured at FVOCI								
Aaa	8,305	9	–	–	–	–	8,305	9
Aa1 to Aa3	19,120	12	–	–	–	–	19,120	12
A1 to A3	59,016	733	–	–	–	–	59,016	733
Baa1 to Baa3	38,932	430	285	4	–	–	39,217	434
Below Baa3	78	1	–	–	–	–	78	1
Unrated	3,214	37	–	–	–	–	3,214	37
Total carrying amount at fair value	128,665	1,222	285	4	–	–	128,950	1,226
where impairment allowances included	(218)	(2)	(13)	–	–	–	(231)	(2)
Debt investment securities measured at FVOCI classified as assets held for sale								
Aaa	–	–	–	–	–	–	–	–
Aa1 to Aa3	203	2	–	–	–	–	203	2
A1 to A3	837	6	–	–	–	–	837	6
Baa1 to Baa3	476	5	17	–	–	–	493	5
Below Baa3	–	–	–	–	–	–	–	–
Unrated	–	–	–	–	–	–	–	–
Total carrying amount at fair value	1,516	13	17	–	–	–	1,533	13
where impairment allowances included	(3)	–	(3)	–	–	–	(6)	–

Notes to the Interim Financial Statements (Continued)

36. Credit Risk (Continued)

(a) Credit Quality Analysis (Continued)

Credit quality of financial assets other than loans and advances (Continued)

	31/12/2021							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt investment securities measured at FVOCI								
Aaa	7,261	9	–	–	–	–	7,261	9
Aa1 to Aa3	20,891	6	–	–	–	–	20,891	6
A1 to A3	57,540	830	–	–	–	–	57,540	830
Baa1 to Baa3	35,530	343	159	2	–	–	35,689	345
Below Baa3	80	1	15	–	–	–	95	1
Unrated	3,336	36	–	–	–	–	3,336	36
Total carrying amount at fair value	<u>124,638</u>	<u>1,225</u>	<u>174</u>	<u>2</u>	<u>–</u>	<u>–</u>	<u>124,812</u>	<u>1,227</u>
where impairment allowances included	<u>(184)</u>	<u>(2)</u>	<u>(2)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(186)</u>	<u>(2)</u>
Debt investment securities measured at FVOCI classified as assets held for sale								
Aaa	–	–	–	–	–	–	–	–
Aa1 to Aa3	19	–	–	–	–	–	19	–
A1 to A3	665	4	–	–	–	–	665	4
Baa1 to Baa3	628	5	–	–	–	–	628	5
Below Baa3	–	–	–	–	–	–	–	–
Unrated	<u>538</u>	<u>3</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>538</u>	<u>3</u>
Total carrying amount at fair value	<u>1,850</u>	<u>12</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,850</u>	<u>12</u>
where impairment allowances included	<u>(7)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(7)</u>	<u>–</u>

Notes to the Interim Financial Statements (Continued)

36. Credit Risk (Continued)

(a) Credit Quality Analysis (Continued)

Credit quality of financial assets other than loans and advances (Continued)

The following table sets out the credit analysis for non-trading financial assets measured at FVTPL.

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
Debt investment securities		
Aaa	–	–
Aa1 to Aa3	–	–
A1 to A3	188	352
Baa1 to Baa3	3,157	3,887
Below Baa3	–	–
Unrated	120	126
	<hr/>	<hr/>
Total carrying amount at fair value	<u>3,465</u>	<u>4,365</u>
Debt investment securities classified as assets held for sale		
Aaa	–	–
Aa1 to Aa3	–	–
A1 to A3	23	–
Baa1 to Baa3	–	26
Below Baa3	–	–
Unrated	–	–
	<hr/>	<hr/>
Total carrying amount at fair value	<u>23</u>	<u>26</u>

Notes to the Interim Financial Statements (Continued)

36. Credit Risk (Continued)

(a) Credit Quality Analysis (Continued)

Credit quality of financial assets other than loans and advances (Continued)

The following table sets out the credit analysis for trading debt investment securities.

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
Debt investment securities		
Aaa	–	–
Aa1 to Aa3	100	–
A1 to A3	7	1,632
Baa1 to Baa3	44	–
Below Baa3	–	–
Unrated	–	–
	<hr/>	<hr/>
Total carrying amount at fair value	151	1,632
	<hr/>	<hr/>

The following table shows the credit quality of the counterparties to which there were exposures arising from derivative asset transactions.

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
Derivative assets		
Aa1 to Aa3	5,737	106
A1 to A3	1,323	700
Baa1 to Baa3	696	920
Below Baa3	–	–
Unrated	1,027	1,655
	<hr/>	<hr/>
Total carrying amount at fair value	8,783	3,381
	<hr/>	<hr/>

Cash and balances with banks

At 30th June, 2022, the Group held cash and balances with banks of HK\$54,819 million (31st December, 2021: HK\$55,091 million), of which 97% (31st December, 2021: 98%) of cash and balances with banks counterparties that are rated at investment grade, based on Moody's Investor Services, or equivalent ratings.

Notes to the Interim Financial Statements (Continued)

36. Credit Risk (Continued)

(b) Impairment Allowances Reconciliation

The following tables show reconciliations from the opening to the closing balance of the impairment allowance by type of financial instrument. The reconciliation is prepared by comparing the position of impairment allowance between 1st January and 30th June/31st December at transaction level. Transfers between different stages of ECL are deemed to occur at the beginning of the year and therefore amounts transferred net to zero. The re-measurement of ECL resulting from a change in ECL stage is reported under the ECL stage in which they are transferred to.

	30/6/2022			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Loans and advances to customers				
Balance at 1st January	670	528	3,231	4,429
Transfer to 12-month ECL	46	(46)	–	–
Transfer to lifetime ECL not credit-impaired	(23)	120	(97)	–
Transfer to lifetime ECL credit-impaired	(6)	(102)	108	–
New financial assets originated or purchased, assets derecognised, repayments and further lending	214	37	34	285
Write-offs	–	–	(1,220)	(1,220)
Net remeasurement of impairment allowances (including exchange adjustments)	(196)	304	1,418	1,526
Balance at 30th June	<u>705</u>	<u>841</u>	<u>3,474</u>	<u>5,020</u>
Of which:				
For loans and advances to customers at amortised cost (Note 20(a))	702	838	3,411	4,951
For related accrued interest receivable (Note 24)	3	3	63	69
	<u>705</u>	<u>841</u>	<u>3,474</u>	<u>5,020</u>

Notes to the Interim Financial Statements (Continued)

36. Credit Risk (Continued)

(b) Impairment Allowances Reconciliation (Continued)

	31/12/2021			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Loans and advances to customers				
Balance at 1st January	849	1,041	3,025	4,915
Transfer to 12-month ECL	150	(150)	–	–
Transfer to lifetime ECL not credit-impaired	(19)	24	(5)	–
Transfer to lifetime ECL credit-impaired	(10)	(371)	381	–
New financial assets originated or purchased, assets derecognised, repayments and further lending	(4)	46	(74)	(32)
Write-offs	–	–	(2,397)	(2,397)
Net remeasurement of impairment allowances (including exchange adjustments)	(296)	(62)	2,301	1,943
Balance at 31st December	<u>670</u>	<u>528</u>	<u>3,231</u>	<u>4,429</u>
Of which:				
For loans and advances to customers at amortised cost (Note 20(a))	667	527	3,177	4,371
For related accrued interest receivable (Note 24)	3	1	54	58
	<u>670</u>	<u>528</u>	<u>3,231</u>	<u>4,429</u>

Notes to the Interim Financial Statements (Continued)

36. Credit Risk (Continued)

(b) Impairment Allowances Reconciliation (Continued)

	30/6/2022			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt investment securities				
Balance at 1st January	284	47	–	331
Transfer to 12-month ECL	2	(2)	–	–
Transfer to lifetime ECL not credit-impaired	(13)	13	–	–
Transfer to lifetime ECL credit-impaired	–	(13)	13	–
New financial assets originated or purchased, assets derecognised, repayments and further investment	38	–	–	38
Write-offs	–	–	–	–
Net remeasurement of impairment allowances (including exchange adjustments)	(10)	70	55	115
Balance at 30th June	<u>301</u>	<u>115</u>	<u>68</u>	<u>484</u>
Of which:				
For debt investment securities measured at amortised cost	80	100	65	245
For related accrued interest receivable (Note 24)	<u>1</u>	<u>2</u>	<u>3</u>	<u>6</u>
	<u>81</u>	<u>102</u>	<u>68</u>	<u>251</u>
For debt investment securities measured at FVOCI	218	13	–	231
For related accrued interest receivable	<u>2</u>	<u>–</u>	<u>–</u>	<u>2</u>
	<u>220</u>	<u>13</u>	<u>–</u>	<u>233</u>

Notes to the Interim Financial Statements (Continued)

36. Credit Risk (Continued)

(b) Impairment Allowances Reconciliation (Continued)

	31/12/2021			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt investment securities				
Balance at 1st January	273	–	–	273
Transfer to 12-month ECL	–	–	–	–
Transfer to lifetime ECL not credit-impaired	(6)	6	–	–
Transfer to lifetime ECL credit-impaired	–	–	–	–
New financial assets originated or purchased, assets derecognised, repayments and further investment	(27)	26	–	(1)
Write-offs	–	–	–	–
Net remeasurement of impairment allowances (including exchange adjustments)	51	15	–	66
Transfer to assets held for sale	(7)	–	–	(7)
	<u>284</u>	<u>47</u>	<u>–</u>	<u>331</u>
Balance at 31st December				
Of which:				
For debt investment securities measured at amortised cost	97	44	–	141
For related accrued interest receivable (Note 24)	1	1	–	2
	<u>98</u>	<u>45</u>	<u>–</u>	<u>143</u>
For debt investment securities measured at FVOCI	184	2	–	186
For related accrued interest receivable	2	–	–	2
	<u>186</u>	<u>2</u>	<u>–</u>	<u>188</u>

The impairment allowances of debt investment securities measured at FVOCI are not separately recognised in the statement of financial position because they have been adjusted to the carrying amounts of debt investment securities measured at FVOCI being their fair values.

Notes to the Interim Financial Statements (Continued)

36. Credit Risk (Continued)

(b) Impairment Allowances Reconciliation (Continued)

	30/6/2022			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Others				
Balance at 1st January	143	24	85	252
Transfer to 12-month ECL	1	(1)	–	–
Transfer to lifetime ECL not credit-impaired	(1)	1	–	–
Transfer to lifetime ECL credit-impaired	–	(7)	7	–
New financial assets originated or purchased, assets derecognised and repayments	1	(6)	9	4
Write-offs	–	–	–	–
Net remeasurement of impairment allowances (including exchange adjustments)	(11)	115	38	142
Balance at 30th June	133	126	139	398
Of which:				
For trade bills measured at FVOCI	–	–	–	–
For related accrued interest receivable	–	–	–	–
	–	–	–	–
For trade bills measured at amortised cost (Note 18)	–	–	–	–
For related accrued interest receivable	–	–	–	–
	–	–	–	–
For placements with and advances to banks (Note 17)	1	–	–	1
For related accrued interest receivable	–	–	–	–
	1	–	–	1
For cash and balances with banks (Note 16)	2	–	–	2
For related accrued interest receivable	–	–	–	–
	2	–	–	2
For loan commitments and financial guarantee contracts (Note 27)	125	126	64	315
For account receivables and other accounts other than accrued interest receivable (Note 24)	5	–	75	80

Notes to the Interim Financial Statements (Continued)

36. Credit Risk (Continued)

(b) Impairment Allowances Reconciliation (Continued)

	31/12/2021			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Others				
Balance at 1st January	89	19	121	229
Transfer to 12-month ECL	2	(2)	–	–
Transfer to lifetime ECL not credit-impaired	–	–	–	–
Transfer to lifetime ECL credit-impaired	–	–	–	–
New financial assets originated or purchased, assets derecognised and repayments	(14)	1	(1)	(14)
Write-offs	–	–	(124)	(124)
Net remeasurement of impairment allowances (including exchange adjustments)	66	6	89	161
Balance at 31st December	143	24	85	252
Of which:				
For trade bills measured at FVOCI	2	–	–	2
For related accrued interest receivable	–	–	–	–
	2	–	–	2
For trade bills measured at amortised cost (Note 18)	–	–	–	–
For related accrued interest receivable	–	–	–	–
	–	–	–	–
For placements with and advances to banks (Note 17)	1	–	–	1
For related accrued interest receivable	–	–	–	–
	1	–	–	1
For cash and balances with banks (Note 16)	3	–	–	3
For related accrued interest receivable	–	–	–	–
	3	–	–	3
For loan commitments and financial guarantee contracts (Note 27)	133	24	17	174
For account receivables and other accounts other than accrued interest receivable (Note 24)	4	–	68	72

The impairment allowances of trade bills measured at FVOCI are not recognised in the statement of financial position because the carrying amount of trade bills measured at FVOCI is their fair value.

Notes to the Interim Financial Statements (Continued)

37. Off-balance Sheet Exposures

(a) *Contingent liabilities and commitments*

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments and the aggregate credit risk-weighted amount and is prepared with reference to the completion instructions for the HKMA return of capital adequacy ratio.

	30/6/2022 HK\$ Mn	31/12/2021 HK\$ Mn
Contractual amounts of contingent liabilities		
Direct credit substitutes	3,371	4,664
Transaction-related contingencies	3,401	4,295
Trade-related contingencies	7,774	5,046
	<u>14,546</u>	<u>14,005</u>
Contractual amounts of commitments		
Commitments that are unconditionally cancellable without prior notice	259,185	232,146
Other commitments with an original maturity		
– up to 1 year	2,803	3,145
– over 1 year	31,060	28,914
	<u>293,048</u>	<u>264,205</u>
Total	<u>307,594</u>	<u>278,210</u>
Credit risk weighted amounts	<u>21,772</u>	<u>21,412</u>

(b) *Derivatives*

Fair value of derivatives

Assets

Exchange rate contracts	1,996	1,207
Interest rate contracts	6,507	1,764
Equity contracts	280	410
	<u>8,783</u>	<u>3,381</u>

Liabilities

Exchange rate contracts	1,378	1,174
Interest rate contracts	1,997	3,548
Equity contracts	276	328
	<u>3,651</u>	<u>5,050</u>

Notional amounts of derivatives

Exchange rate contracts	312,460	291,721
Interest rate contracts	343,118	403,558
Equity contracts	7,033	8,370
	<u>662,611</u>	<u>703,649</u>

Notes to the Interim Financial Statements (Continued)

37. Off-balance Sheet Exposures (Continued)

(c) Capital commitments

Capital commitments outstanding as at 30th June and 31st December and not provided for in the financial statements were as follows:

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
Expenditure authorised and contracted for	307	285
Expenditure authorised but not contracted for	162	171
	<u>469</u>	<u>456</u>

(d) Contingencies

The Group receives legal claims against it arising in the normal courses of business. The Group considers none of these matters as material. Where appropriate the Group recognises provisions for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation.

38. Material Related Party Transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Directors and certain of the highest paid employees, is as follows:

	30/6/2022	30/6/2021
	HK\$ Mn	HK\$ Mn
Short-term employee benefits	78	83
Post-employment benefits	4	4
Equity compensation benefits	11	10
	<u>93</u>	<u>97</u>

Notes to the Interim Financial Statements (Continued)

38. Material Related Party Transactions (Continued)

- (b) The Group maintains certain retirement benefit schemes for its staff. In the six months ended 30th June, 2022, the total amount of contributions the Group made to the schemes was HK\$99 million (six months ended 30th June, 2021: HK\$106 million).

The Group enters into a number of transactions with the Group's related parties, including its associates, shareholders with significant influence, and key management personnel and their close family members and companies controlled or significantly influenced by them. The transactions include accepting deposits from and extending credit facilities to them. All interest rates in connection with the deposits taken and credit facilities extended are under terms and conditions normally applicable to customers of comparable standing.

The interest received from and interest paid to the Group's related parties for the six months ended 30th June, 2022, outstanding balances of amounts due from and due to them at 30th June, 2022 and maximum outstanding balance of amounts due from and due to them for the six months ended 30th June, 2022 are aggregated as follows:

	Key management personnel		Associates		Shareholders with significant influence	
	30/6/2022	30/6/2021	30/6/2022	30/6/2021	30/6/2022	30/6/2021
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest income	10	8	43	34	–	–
Interest expense	6	5	–	–	–	–
Amounts due from	972	735	1,665	1,623	2,197	3,409
Amounts due to	2,144	2,386	183	32	40	135
Maximum amounts due from	2,030	1,107	1,792	1,950	8,259	6,125
Maximum amounts due to	3,893	3,976	390	251	244	1,003
Committed facilities to	548	1,286	1,703	1,009	–	–

Notes to the Interim Financial Statements (Continued)

39. Basis of Consolidation

Unless otherwise stated, all financial information contained in this interim report is prepared according to the consolidation basis for accounting purposes.

The capital adequacy ratio, leverage ratio and liquidity position of the Group are prepared according to the basis of consolidation for regulatory purposes. The main difference between the consolidation base for accounting and regulatory purposes is that the former includes the Bank and all its subsidiaries, associates and joint ventures whereas the latter includes the Bank and only some of the Group's subsidiaries which mainly conduct banking business or other businesses incidental to banking business.

List of subsidiaries for financial reporting consolidation as at reporting date:

Name of company	Nature of business	Total assets HK\$ Mn	Total equity HK\$ Mn
Ample Delight Limited	Investment holding	320	320
* Bank of East Asia (Trustees) Limited	Trustee service	224	203
BC (BVI) Holdings Limited	Investment holding	16	16
BEA Consortium GS Investors L.P.	Acting as a limited partner for the purpose of making investment in private equity fund	17	17
BEA Insurance Agency Limited	Insurance agency	–	–
BEA Union Investment Management Limited	Asset management	536	475
BEA Union Investment Management (Shenzhen) Limited	Asset management/Investment management	6	4
Blue Care (BVI) Holdings Limited	Investment holding	16	16
Blue Care JV (BVI) Holdings Limited	Investment holding	20	16
Blue Care Medical Services Limited	Medical services	50	42
Blue Cross (Asia-Pacific) Insurance Limited	Insurance	2,301	651
Central Town Limited	Property investment	764	648
Century Able Limited	Investment holding	86	86
Citiview Capital Limited	Acting as the general partner and limited partner of a limited partnership	1	1
Corona Light Limited	Investment holding	930	930
* Credit Gain Finance Company Limited	Money lenders	686	686

Notes to the Interim Financial Statements (Continued)

39. Basis of Consolidation (Continued)

Name of company	Nature of business	Total assets HK\$ Mn	Total equity HK\$ Mn
Crystal Gleaming Limited	Investment holding	930	930
Dragon Jade Holdings Company Limited	Investment holding	1,127	1,127
EA Securities Limited	Investment holding	–	(63)
* East Asia Digital Information Services (Guangdong) Limited	Servicing	243	189
* East Asia Facility Management Limited	Facility management	23	8
East Asia Financial Services (BVI) Ltd.	Investment holding	–	–
East Asia Futures Limited	Futures and options trading	58	58
* East Asia Holding Company, Inc.	Bank holding company	633	616
East Asia Indonesian Holdings Limited	Investment holding	2	1
East Asia International Trustees Holdings (BVI) Limited	Investment holding	10	10
East Asia International Trustees Limited	Trustee service	43	42
* East Asia Properties (US), Inc.	Funding support	14	12
East Asia Properties Holding Company Limited	Investment holding	–	(32)
East Asia Property Agency Company Limited	Property agency	9	8
East Asia Qianhai Holdings Company Limited	Investment holding	215	215
East Asia Secretaries Limited	Secretarial services	–	–
East Asia Securities Company Limited	Securities broking	1,382	995
* East Asia Services (Holdings) Limited	Holding company	23	–
Golden Empire International Inc.	Property investment	1	1
Leader One Limited	Investment holding	1	1
Manchester Property Holdings Ltd.	Property holding	30	16
Quantum Hong Kong Holdings Company Limited	Investment holding	77	77

Notes to the Interim Financial Statements (Continued)

39. Basis of Consolidation (Continued)

Name of company	Nature of business	Total assets HK\$ Mn	Total equity HK\$ Mn
Red Phoenix Limited	Leasing of motor vehicles	4	4
Shaftesbury Property Holdings Limited	Investment holding	50	50
Shaftesbury Property Investments Limited	Investment holding	34	34
Shanghai Lingxie Business Consulting Co. Ltd.	Business information consulting, corporate management consulting	212	211
Silver River International Limited	Acting as the general partner and limited partner of a limited partnership	7	7
Skyray Holdings Limited	Investment holding	450	450
Speedfull Limited	Investment holding	450	450
*# The Bank of East Asia (China) Limited	Banking and related financial services	253,384	25,837
The Bank of East Asia (Nominees) Limited	Nominee services	—	—
The Bank of East Asia (Nominees) Private Limited	Trustee, fiduciary and custody services	—	—
Travelsafe Limited	To be deregistered	—	—
U Care Hong Kong Medical Limited	Medical services	27	(11)
United Chinese (Nominee) Limited	To be deregistered	—	—

* "regulated financial entities" as defined by the Banking (Capital) Rules and included in the basis of consolidation for regulatory reporting purpose.

"associated entities" as defined by the Banking (Liquidity) Rules and included in the basis of consolidation for regulatory reporting purpose.

Notes to the Interim Financial Statements (Continued)

40. Comparative Figures

Certain 2021 comparative figures have been restated to conform to current period's presentation. Please refer to Note 5 and Note 29 for the effect of the restatement.

41. Statement of Compliance

The Interim Report has been prepared in accordance with the applicable disclosure provisions of the Listing Rules and in compliance with HKAS 34, "Interim Financial Reporting", issued by the HKICPA. It was authorised for issue on 18th August, 2022.

This Interim Report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The Banking Disclosure Statement (refer to Note E of Supplementary Financial Information), together with the disclosures in the interim financial report, contained all the disclosures required by the Banking (Disclosure) Rules and Part 6 of the Financial Institutions (Resolutions) (Loss-absorbing Capacity Requirements – Banking Sector) Rules issued by the HKMA.

42. Assets Held for Sale

The assets held for sale and liabilities held for sale after elimination of inter-companies balances are summarised below:

	30/6/2022 HK\$ Mn	31/12/2021 HK\$ Mn
Assets held for sale (<i>Note 24</i>)		
Disposal groups held for sale (<i>Note</i>)	2,031	2,232
Other properties	31	32
	<u>2,062</u>	<u>2,264</u>
Liabilities held for sale (<i>Note 27</i>)		
Disposal groups held for sale (<i>Note</i>)	<u>1,658</u>	<u>1,637</u>

Note: Include Blue Cross (Asia Pacific) Insurance Limited

Notes to the Interim Financial Statements (Continued)

42. Assets Held for Sale (Continued)

The assets and liabilities of the disposal groups held for sale after elimination of inter-companies balances are summarised below:

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
ASSETS		
Cash and balances with banks	3	3
Investment securities	1,596	1,926
Fixed assets	39	34
– Investment properties	–	–
– Other properties and equipment	38	33
– Right-of-use assets	1	1
Goodwill	14	14
Other assets	379	255
Assets held for sale	2,031	2,232
LIABILITIES		
Current taxation	–	4
Deferred tax liabilities	3	5
Other liabilities	1,655	1,628
Liabilities held for sale	1,658	1,637

As at 30th June, 2022, the total equity of the disposal groups attributable to the Group was HK\$678 million (31/12/2021: HK\$770 million).

Investment Securities

	30/6/2022			
	Mandatorily measured at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Certificate of deposits held	–	638	–	638
Debt securities	23	895	–	918
Equity securities	40	–	–	40
	63	1,533	–	1,596
	31/12/2021			
	Mandatorily measured at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Certificate of deposits held	–	690	–	690
Debt securities	26	1,160	–	1,186
Equity securities	50	–	–	50
	76	1,850	–	1,926

Notes to the Interim Financial Statements (Continued)

42. Assets Held for Sale (Continued)

The cumulative income recognised in other comprehensive income relating to disposal groups held for sale is as follows:

	30/6/2022	30/6/2021
	HK\$ Mn	HK\$ Mn
Cumulative income recognised in other comprehensive income	(172)	(525)

43. Exposures to Interbank Offered Rates

The following tables show outstanding amounts of financial instruments referencing the interest rate benchmarks that have yet to transit to alternative benchmark rates at the end of the reporting period, excluding the financial instruments that will expire before the transition date. The amounts of financial assets and liabilities are shown at gross carrying amounts, and derivatives are shown at notional amounts.

	30/6/2022			
	Gross Carrying Amount/Notional Amount			
	USD LIBOR	GBP LIBOR	SG Swap Offer Rate	SIBOR
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets				
Loans and advances to customers	41,197	95	2,494	6,086
Placements with and advances to banks	4,530	–	–	–
Negotiable debt instruments held, including negotiable certificates of deposit	78	–	–	–
Total Asset	<u>45,805</u>	<u>95</u>	<u>2,494</u>	<u>6,086</u>
Liabilities				
Certificate of deposit and debt securities issued	2,730	–	–	–
Total liabilities	<u>2,730</u>	<u>–</u>	<u>–</u>	<u>–</u>
Derivatives				
Interest rate swaps	58,339	–	–	–
Cross currency swaps	2,820	–	–	–
Other derivatives	157	–	–	–
Gross total derivatives	<u>61,316</u>	<u>–</u>	<u>–</u>	<u>–</u>

The Group has fair value hedge accounting relationships maturing beyond the anticipated cessation date for IBORs. Significant judgement will be required in determining when uncertainty is expected to be resolved and when targeted relief will cease to apply. As at 30th June, 2022, the Group believes uncertainty continues to exist as to when and how the replacement may occur with respect to the relevant derivative hedging instruments, and so the targeted reliefs apply to the Group's hedge accounting relationships that reference benchmarks subject to reform or replacement.

Notes to the Interim Financial Statements (Continued)

43. Exposures to Interbank Offered Rates (Continued)

As at 30th June 2022, the details of derivative instruments designated in fair value hedge accounting relationships linked to IBORs, excluding the derivative instruments that will expire before the transition date, are as follows:

	30/6/2022	
	Notional designated	Weighted average exposure years
	HK\$ Mn	
Interest rate swaps		
USD LIBOR	49,397	4.86

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