

BANK OF COMMUNICATIONS (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

2020 INTERIM REPORT

Private Banking
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Bank of Communications (Hong Kong) Limited

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INTERIM REPORT 2020

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Report on Review of Interim Report

TO THE BOARD OF DIRECTORS OF BANK OF COMMUNICATIONS (HONG KONG) LIMITED

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the Interim Report set out on pages 3 to 42, which comprises the unaudited condensed interim statement of financial position of Bank of Communications (Hong Kong) Limited (the “Bank”) as at 30 June 2020 and the unaudited condensed interim statement of profit or loss and other comprehensive income, the unaudited condensed interim statement of changes in equity and the unaudited condensed interim statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Bank are responsible for the preparation and presentation of this Interim Report in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this Interim Report based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review 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 Hong Kong Institute of Certified Public Accountants. A review of Interim Report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Interim Report of the Bank is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 10 September 2020

Unaudited Condensed Interim Statement of Profit or Loss and Other Comprehensive Income

(All amounts expressed in thousands of HK\$ unless otherwise stated)

		Six months ended 30 June	
		2020	2019
	Notes		
Interest income		2,821,333	3,081,373
Interest expense		(1,745,800)	(1,529,467)
Net interest income	4	1,075,533	1,551,906
Fee and commission income	5	408,220	412,936
Fee and commission expense	6	(26,992)	(28,623)
Net fee and commission income		381,228	384,313
Net gains/(losses) arising from trading activities	8	324,686	(111,629)
Net gains arising from financial investments		140,289	52,266
Dividend income	7	35	35
Other operating income	9	7,367	9,238
Change in expected credit losses	10	(266,012)	(21,886)
Other operating expenses	11	(709,478)	(719,383)
Profit before tax		953,648	1,144,860
Income tax expenses	12	(166,384)	(180,842)
Net profit for the period		787,264	964,018
Other comprehensive (loss)/income for the period, net of tax			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
<i>Equity investments at fair value through other comprehensive income – net change in fair value</i>		(172)	(25)
<i>Item that may be reclassified to profit or loss:</i>			
<i>Debt investments at fair value through other comprehensive income</i>			
<i>Net (losses)/gains recorded in equity</i>		(472,365)	497,460
<i>Net losses reclassified from equity to profit or loss</i>		(117,141)	(52,267)
Other comprehensive (loss)/income for the period		(589,678)	445,168
Total comprehensive income for the period		197,586	1,409,186

The accompanying notes form a part of these unaudited condensed interim financial statements.

Unaudited Condensed Interim Statement of Financial Position

(All amounts expressed in thousands of HK\$ unless otherwise stated)

		As at 30 June 2020	As at 31 December 2019
	Notes		
ASSETS			
Cash and balances with central bank	13	14,433,822	1,094,956
Due from banks and other financial institutions	14	9,315,776	17,667,908
Financial assets at fair value through profit or loss	15	485,187	1,064,926
Financial assets at fair value through other comprehensive income	18	167,204,363	122,242,273
Loans and advances to customers	17	89,792,378	79,201,615
Property and equipment	19	47,578	53,476
Deferred income tax assets		100,172	–
Right-of-use assets		288,232	298,409
Other assets	20	4,108,348	5,489,437
Total assets		285,775,856	227,113,000
LIABILITIES			
Due to banks and other financial institutions	21	42,797,604	28,736,570
Due to customers	23	209,591,304	170,755,289
Financial liabilities at fair value through profit or loss	22	3,364,575	1,168,798
Current tax liabilities		429,012	534,932
Deferred income tax liabilities		–	46,906
Lease liabilities		291,747	301,488
Other liabilities	24	4,146,570	4,483,009
Total liabilities		260,620,812	206,026,992
EQUITY			
Share capital	25	17,900,000	17,900,000
Additional equity instrument	26	3,871,450	–
Other reserves		(108,514)	481,164
Retained earnings		3,492,108	2,704,844
Total equity		25,155,044	21,086,008
Total equity and liabilities		285,775,856	227,113,000

The unaudited condensed interim financial statements were approved and authorized for issue by the Board of Directors on 10 September 2020 and signed on its behalf by:

Wang Feng, Chairman

Chan Ha Fong, Nancy, Chief Executive

The accompanying notes form a part of these unaudited condensed interim financial statements.

Unaudited Condensed Interim Statement of Changes in Equity

(All amounts expressed in thousands of HK\$ unless otherwise stated)

	Attributable to the shareholder of the Bank				Total
	Share capital	Additional equity instrument	Other reserves	Retained earnings (Note (a))	
At 1 January 2020	17,900,000	–	481,164	2,704,844	21,086,008
Net profit for the period	–	–	–	787,264	787,264
Other comprehensive loss for the period	–	–	(589,678)	–	(589,678)
Issue of additional equity instrument	–	3,871,450	–	–	3,871,450
At 30 June 2020	17,900,000	3,871,450	(108,514)	3,492,108	25,155,044
At 1 January 2019	17,900,000	–	86,974	646,259	18,633,233
Change in accounting policy	–	–	–	(4,089)	(4,089)
Restated balance at 1 January 2019	17,900,000	–	86,974	642,170	18,629,144
Net profit for the period	–	–	–	964,018	964,018
Other comprehensive income for the period	–	–	445,168	–	445,168
At 30 June 2019	17,900,000	–	532,142	1,606,188	20,038,330

Note (a):

In accordance with the requirements of the Hong Kong Monetary Authority (the “HKMA”), the regulatory reserve is set aside for general banking risks, including future losses or other unforeseeable risks. The regulatory reserve is set up in compliance with the HKMA’s requirements and is distributable to shareholder of the Bank subject to consultation with the HKMA. As at 30 June 2020, HK\$489,915,000 (30 June 2019: HK\$797,163,000) was earmarked as the regulatory reserve from the retained earnings.

The accompanying notes form a part of these unaudited condensed interim financial statements.

Unaudited Condensed Interim Statement of Cash Flows

(All amounts expressed in thousands of HK\$ unless otherwise stated)

		Six months ended 30 June	
		2020	2019
	Notes		
Cash flows from operating activities:			
Profit before tax		953,648	1,144,860
Adjustments for:			
Change in expected credit losses		266,012	21,886
Depreciation and amortization		11,506	14,525
Depreciation of right-of-use assets		91,292	74,819
Finance costs – lease interest expense		2,496	2,180
Loss on disposal of property and equipment		–	2
Interest income from financial investments		(1,497,688)	(1,861,481)
Fair value gains		(54,698)	(92,776)
Dividend income		(35)	(35)
Withholding tax		144	–
Net gains arising from financial investments		(140,289)	(52,266)
Operating cash flows before movements in operating assets and liabilities		(367,612)	(748,286)
Net decrease in due from banks and other financial institutions		4,114,407	5,224,094
Net decrease in financial assets at fair value through profit or loss		634,437	4,282,128
Net increase in loans and advances to customers		(10,690,638)	(652,507)
Net decrease/(increase) in other assets		1,734,051	(602,002)
Net increase/(decrease) in due to banks and other financial institutions		14,061,034	(3,530,302)
Net increase in financial liabilities at fair value through profit or loss		2,195,777	776,403
Net increase in due to customers		38,836,015	536,386
Net decrease in other liabilities		(344,793)	(572,593)
Income tax paid		(288,156)	–
Net cash inflows from operating activities		49,884,522	4,713,321
Cash flows from investing activities:			
Purchase of financial investments		(91,302,315)	(138,026,915)
Disposal or redemption of financial investments		45,600,732	128,412,655
Dividend received		35	35
Interest received from financial investments		1,143,639	1,721,342
Purchase of intangible assets		(1,401)	(5,243)
Purchase of property and equipment		(4,166)	(5,231)
Net cash outflows from investing activities		(44,563,476)	(7,903,357)
Cash flows from financing activities:			
Principal elements of lease payments		(90,854)	(74,450)
Interest paid for lease		(2,496)	(2,180)
Issuance of additional equity instrument		3,871,450	–
Net cash inflows/(outflows) from financing activities		3,778,100	(76,630)
Net increase/(decrease) in cash and cash equivalents		9,099,146	(3,266,666)
Cash and cash equivalents at the beginning of the period		6,034,595	11,704,990
Cash and cash equivalents at the end of the period	28	15,133,741	8,438,324

The accompanying notes form a part of these unaudited condensed interim financial statements.

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

1 GENERAL

Bank of Communications (Hong Kong) Limited ("the Bank") is a company incorporated and domiciled in Hong Kong. The address of its registered office is 20 Pedder Street, Central, Hong Kong and principal place of business is Unit B B/F & G/F, Unit C G/F, 1-3/F, 16/F Rm01 & 18/F Wheelock House, 20 Pedder Street, Central, Hong Kong. Its ultimate holding company is Bank of Communications Co., Ltd., which is incorporated in the People's Republic of China.

On 29 September 2015, the Hong Kong Monetary Authority granted the Bank a banking licence under the Banking Ordinance.

On 29 January 2018 (the "Appointed Day"), the Bank of Communications (Hong Kong) Limited (Merger) Ordinance (Chapter 1182 of the laws of Hong Kong) (the "Ordinance") has become effective. Pursuant to the Ordinance, certain activities, assets and liabilities which constitute the retail banking business and private banking business of Bank of Communications Co., Ltd. Hong Kong Branch ("HKBR") have been transferred to the Bank in accordance with section 4(1) of the Ordinance. Accordingly, the Bank commenced its retail banking business and private banking business on the Appointed Day.

On 6 January 2020, the Bank has altered its articles of association and the Bank's status has been changed from a private company to a public company with effect from 6 January 2020. In March 2020, the Bank issued USD500 million undated non-cumulative subordinated Additional Tier 1 capital securities.

These unaudited condensed interim financial statements are presented in thousands of Hong Kong Dollars (HK\$), unless otherwise stated.

The financial information relating to the year ended 31 December 2019 that is included in the unaudited condensed interim financial statements for the six months ended 30 June 2020 as comparative information does not constitute the Bank's statutory annual financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Bank has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The 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 sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

The regulatory disclosure information required under the Banking (Disclosure) Rules is available in the Regulatory Disclosures Section of our website at www.hk.bankcomm.com.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS

2.1 Basis of preparation and principal accounting policies

These unaudited condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting*. The financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

The Bank adopts the going concern basis in preparing its unaudited condensed interim financial statements.

These unaudited condensed interim financial statements of the Bank do not include all the notes of the types normally included in annual financial statements. Accordingly, these unaudited condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2019.

Except as described below, the Bank's accounting policies applied in preparing these unaudited condensed interim financial statements are consistent with those policies applied in preparing the financial statements for the year ended 31 December 2019.

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

2.1 Basis of preparation and principal accounting policies *(continued)*

2.1.1 New and amended HKFRSs adopted by the Bank

Amendments to HKAS 1 and HKAS 8 (effective by 1 January 2020)	Definition of Material
Amendments to HKFRS 3 (effective by 1 January 2020)	Definition of a Business
Amendments to HKFRS 16 (effective by 1 June 2020)	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39 and HKFRS 7 (effective by 1 January 2020)	Interest Rate Benchmark Reform

The impact of the amendments to HKFRS 9, HKAS 39 and HKFRS 7 are disclosed below. The other amendments to the standards did not have any impact on the Bank's accounting policies and did not require retrospective adjustments.

The amendments to HKFRS 9, HKAS 39 and HKFRS 7 provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to Interest Rate Benchmark Reform. Key changes include:

- modifying specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;
- mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;
- are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and
- requiring specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

Significant judgement will be required in determining when uncertainty is expected to be resolved and when the targeted relief will cease to apply. As at 30 June 2020, the Bank believes it is too early to reliably estimate when interest rate benchmark uncertainty will be resolved for all benchmarks assumed to be in scope of the amendments and so the targeted relief applied to the Bank's hedge accounting relationships that reference benchmarks subject to reform or replacement.

The Bank applies hedge accounting on hedging its interest rate risk on certain debt investments, loans and advances to customers and therefore is exposed to changes in fair value due to movements in market rates. As at 30 June 2020, the derivative instruments designated in fair value hedge accounting relationships were linked to interbank offered rate reference rates:

As at 30 June 2020	Notional amount
Fair value hedge	
Interest rate contract	
USD London Interbank Offered Rate	56,499,843
Hong Kong Interbank Offered Rate	1,860,000
Total	58,359,843

The notional contract amounts of interest rate derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding as at the reporting date, they do not represent amounts at risk. The Bank has adopted the new amendments to HKFRS 9, HKAS 39 and HKFRS 7 and concluded it does not have a material impact on the Bank's operating results, financial position or other comprehensive income.

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

2.1 Basis of preparation and principal accounting policies *(continued)*

2.1.1 New and revised HKFRSs effective by 1 January 2020 applied by the Bank *(continued)*

The transition to alternative benchmark rates is being closely monitored with on-going impact assessment across different key business and functions being performed. The Bank has set up a steering committee, chaired by senior executive to oversee the transition. A project team led by Asset and Liability Management Department and involving all relevant functional departments has also been established with the objective of ensuring a smooth transition to the alternative benchmark rates.

2.1.2 Standards and amendments that are not yet effective and have not been adopted by the Bank

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2020 reporting periods and have not been early adopted by the Bank. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Critical accounting estimates and judgments in applying accounting policies

The preparation of these unaudited condensed interim financial statements require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this unaudited condensed interim financial statements, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2019, except for those applied in determining forward-looking information incorporated in the calculation of expected credit loss ("ECL") of financial instruments. Details of changes in these significant judgements are further set out under note 3.1.1.2.

3 FINANCIAL RISK MANAGEMENT

3.1 Credit risk

3.1.1 Expected credit loss ("ECL") measurement

3.1.1.1 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default. For example, for a revolving loan commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Expected credit loss ("ECL") measurement *(continued)*

3.1.1.1 Measuring ECL – Explanation of inputs, assumptions and estimation techniques *(continued)*

The ECL is determined by projecting the PD, LGD and EAD for each future year and for each individual exposure. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier year). This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by using forecasted macroeconomic factor to calculate a forecasted 12M PD for the 2nd to 5th year. For the years after the fifth year, it is assumed that the PD will remain the same.

EAD represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by borrowers, reflecting the total amount of possible losses to be incurred. In general, this includes the utilized credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.

3.1.1.2 Forward-looking information incorporated in the ECL models

The assessment of significant increase in credit risk and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables to come up with a base economic scenario over the next five years are gathered from economics team of the Bank of Communications Co. Ltd., HKBR's Development Strategy Team and the International Monetary Fund ("IMF"). After five years, economic variables are assumed to remain stable and the last available forecast is used. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Bank's Risk Management Department and Development Strategy Team have also considered other economic scenarios which are calculated using historical data, along with weightings for each of the scenarios. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. At 31 December 2019 and 30 June 2020, the Bank concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by expert judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

Following this assessment, the Bank then measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Expected credit loss ("ECL") measurement *(continued)*

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

As with any economic forecasts, the projections and likelihoods of occurrence of the economic scenarios are based on estimates to future economic condition which are sensitive to changes in these conditions caused by macro events, including the COVID-19 pandemic and geopolitical developments. They are therefore subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios. The proposed macroeconomic forecasts and probability weightings are subject to management review.

Economic variable assumptions

The COVID-19 pandemic has created unprecedented economic and social challenges to all regions of the world. In order to limit the spread of COVID-19, different restrictions (including social distancing or lock down) are implemented by governments over the world which resulted in a sharp decline in global economic activities in the first half of 2020. At the same time, different forms of relief measures have also been rolled out by governments around the world at unprecedented scale and speed to prevent the further deterioration and support the recovery of economies. It is expected that global economic activities would gradually recover over time.

The above development of COVID-19 pandemic and geopolitical environment changes in first half of 2020 have added complications to the estimates of the economic scenarios and caused the Bank to revisit its economic scenarios and probability weightings in calculating ECL.

The Bank has continued to adopt the use of three economic scenarios for all portfolios. Historically, they represented a most likely scenario (i.e. the "Base" scenario) and two, less likely, "outer" scenarios on either side of the Base scenario, referred to as an "Upside" and a "Downside" scenario respectively. Due to above observed changes in macro environment in first half of 2020, the Bank has revised the forecast about future economic conditions.

As at 30 June 2020, the three scenarios represent the "Most Likely" scenario with the highest probability of 50%, the "Mild Downside" scenario with probability of 10% and the "Downside" scenario with probability of 40% respectively. The "Downside" scenario can be described as follows: an estimate of severe economic shock to the global economy in 2020 and the shock is replaced by a notable recovery in 2021. A moderate growth is expected afterwards. GDP in different regions is expected to contract in 2020 and rebound largely in 2021. The unemployment rate is expected to rise sharply in 2020 in most of the regions. It is forecasted to return to the growth level similar to that in 2019 gradually over the future years. Comparatively, the probability of the three scenarios as of 31 December 2019 was 65% for the "Base" scenario, 20% for the "Upside" scenario and 15% for the "Downside" scenario.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory or legislative changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored by management for appropriateness on a regular basis.

The Bank has not adopted any hindsight, i.e. any events and factors that occurred post 30 June 2020 that were not reasonably foreseeable nor provided evidence of conditions that existed at the interim reporting period end date were not taken into account, in developing the economic scenarios. These events or factors will be considered in developing economic scenarios for ECL calculation in subsequent reporting periods.

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Expected credit loss ("ECL") measurement *(continued)*

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

Sensitivity analysis

The following table presents the ECL under the "Most Likely" scenario compared to the probability-weighted ECL derived from using three ECL scenarios. The difference reflects the impact of deriving multiple scenarios around the ECL under the "Most Likely" scenario and resultant change in ECL due to non-linearity and sensitivity to using macroeconomic forecasts.

	As at 30 June 2020
Change in ECL under the "Most Likely" scenario to probability-weighted ECL	
Probability-weighted ECL	742,051
ECL assuming 100% probability weighting assigned to the "Most Likely" scenario	219,159
Difference in amount	522,892
Difference in percentage	70.5%

As at 31 December 2019, the difference between the ECL under 100% weighting of the "Base" scenario of HK\$480,756,000 and the probability-weighted ECL of HK\$477,417,000 as at 31 December 2019 amounted to HK\$3,339,000 or 0.7%.

3.1.2 Credit risk exposure – Collateral

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

As at 30 June 2020:

	Gross exposure	ECL allowance	Carrying amount	Fair value of collateral held
Loans to individuals	33,582	(19,254)	14,328	12,625
Loans to corporate entities	59,860	(23,895)	35,965	15,784
	93,442	(43,149)	50,293	28,409

As at 31 December 2019:

	Gross exposure	ECL allowance	Carrying amount	Fair value of collateral held
Loans to individuals	29,783	(14,329)	15,454	13,687
Loans to corporate entities	32,605	(14,316)	18,289	10,560
	62,388	(28,645)	33,743	24,247

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.3 Movements of gross carrying amount and ECL allowance

Movement of gross amount – Corporate Loan

Corporate Loan	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	44,022,858	324,460	32,605	44,379,923
Transfers:				
Transfer from Stage 1 to Stage 2	(80,376)	80,376	–	–
Transfer from Stage 1 to Stage 3	(17,180)	–	17,180	–
Transfer from Stage 2 to Stage 1	28,710	(28,710)	–	–
Transfer from Stage 2 to Stage 3	–	(17,971)	17,971	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	6,165,084	(94,954)	(7,868)	6,062,262
Foreign exchange and other movements	(34,275)	–	(28)	(34,303)
Gross carrying amount as at 30 June 2020	50,084,821	263,201	59,860	50,407,882

Corporate Loan	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	39,535,107	79,561	17,900	39,632,568
Transfers:				
Transfer from Stage 1 to Stage 2	(124,257)	124,257	–	–
Transfer from Stage 1 to Stage 3	(12,789)	–	12,789	–
Transfer from Stage 2 to Stage 1	21,431	(21,431)	–	–
Transfer from Stage 2 to Stage 3	–	(2,390)	2,390	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	4,648,945	144,463	(452)	4,792,956
Foreign exchange and other movements	(45,579)	–	(22)	(45,601)
Gross carrying amount as at 31 December 2019	44,022,858	324,460	32,605	44,379,923

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.3 Movements of gross carrying amount and ECL allowance (continued)

Movement of ECL allowance – Corporate Loan

	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Corporate Loan				
Loss allowance as at 1 January 2020	138,330	16,797	14,316	169,443
Transfers:				
Transfer from Stage 1 to Stage 2	(449)	449	–	–
Transfer from Stage 1 to Stage 3	(83)	–	83	–
Transfer from Stage 2 to Stage 1	432	(432)	–	–
Transfer from Stage 2 to Stage 3	–	(1,625)	1,625	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	15,487	1,942	(859)	16,570
Changes in PDs/LGDs/EADs	(46,173)	7,317	8,346	(30,510)
Unwind of discount (Note a)	999	226	53	1,278
Foreign exchange and other movements	(507)	(16)	331	(192)
Loss allowance amount as at 30 June 2020	108,036	24,658	23,895	156,589
	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL Allowance	Total
Corporate Loan				
Loss allowance as at 1 January 2019	141,821	8,578	8,236	158,635
Transfers:				
Transfer from Stage 1 to Stage 2	(941)	941	–	–
Transfer from Stage 1 to Stage 3	(107)	–	107	–
Transfer from Stage 2 to Stage 1	2,317	(2,317)	–	–
Transfer from Stage 2 to Stage 3	–	(374)	374	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	17,600	3,534	1,705	22,839
Changes in PDs/LGDs/EADs	(22,040)	6,274	3,799	(11,967)
Unwind of discount (Note a)	–	203	–	203
Foreign exchange and other movements	(320)	(42)	95	(267)
Loss allowance amount as at 31 December 2019	138,330	16,797	14,316	169,443

Note a: The unwind of discount on Stage 3 financial assets is reported within 'interest income', so that interest income is recognized on the amortized cost (after deducting the ECL allowance).

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.3 Movements of gross carrying amount and ECL allowance *(continued)*

Movement of gross amount – Retail Loan

Retail Loan	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	34,831,205	246,680	29,783	35,107,668
Transfers:				
Transfer from Stage 1 to Stage 2	(135,067)	135,067	–	–
Transfer from Stage 1 to Stage 3	(6,217)	–	6,217	–
Transfer from Stage 2 to Stage 1	117,318	(117,318)	–	–
Transfer from Stage 2 to Stage 3	–	(5,463)	5,463	–
Transfer from Stage 3 to Stage 1	5	–	(5)	–
Transfer from Stage 3 to Stage 2	–	12	(12)	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	4,622,930	(50,927)	(6,412)	4,565,591
Write-offs	–	–	(1,449)	(1,449)
Foreign exchange and other movements	(2,967)	(38)	(3)	(3,008)
Gross carrying amount as at 30 June 2020	39,427,207	208,013	33,582	39,668,802

Retail Loan	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	28,040,662	201,287	46,416	28,288,365
Transfers:				
Transfer from Stage 1 to Stage 2	(185,428)	185,428	–	–
Transfer from Stage 1 to Stage 3	(18,522)	–	18,522	–
Transfer from Stage 2 to Stage 1	89,474	(89,474)	–	–
Transfer from Stage 2 to Stage 3	–	(1,357)	1,357	–
Transfer from Stage 3 to Stage 1	74	–	(74)	–
Transfer from Stage 3 to Stage 2	–	495	(495)	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	6,910,503	(49,586)	(29,148)	6,831,769
Write-offs	–	–	(6,794)	(6,794)
Foreign exchange and other movements	(5,558)	(113)	(1)	(5,672)
Gross carrying amount as at 31 December 2019	34,831,205	246,680	29,783	35,107,668

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.3 Movements of gross carrying amount and ECL allowance (continued)

Movement of ECL allowance – Retail Loan

Retail Loan	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Loss allowance amount as at 1 January 2020	90,033	43,605	14,329	147,967
Transfers:				
Transfer from Stage 1 to Stage 2	(513)	513	–	–
Transfer from Stage 1 to Stage 3	(47)	–	47	–
Transfer from Stage 2 to Stage 1	27,109	(27,109)	–	–
Transfer from Stage 2 to Stage 3	–	(904)	904	–
Transfer from Stage 3 to Stage 1	23	–	(23)	–
Transfer from Stage 3 to Stage 2	–	37	(37)	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	49,596	(6,071)	233	43,758
Changes in PDs/LGDs/EADs	45,675	17,010	4,938	67,623
Unwind of discount (Note a)	488	417	251	1,156
Write-offs	–	–	(1,449)	(1,449)
Foreign exchange and other movements	(47)	99	61	113
Loss allowance amount as at 30 June 2020	212,317	27,597	19,254	259,168

Retail Loan	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL Allowance	Total
Loss allowance amount as at 1 January 2019	34,877	23,384	15,318	73,579
Transfers:				
Transfer from Stage 1 to Stage 2	(409)	409	–	–
Transfer from Stage 1 to Stage 3	(44)	–	44	–
Transfer from Stage 2 to Stage 1	15,529	(15,529)	–	–
Transfer from Stage 2 to Stage 3	–	(266)	266	–
Transfer from Stage 3 to Stage 1	13	–	(13)	–
Transfer from Stage 3 to Stage 2	–	506	(506)	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	22,116	1,482	(845)	22,753
Changes in PDs/LGDs/EADs	18,127	33,178	6,546	57,851
Unwind of discount (Note a)	–	558	–	558
Write-offs	–	–	(6,794)	(6,794)
Foreign exchange and other movements	(176)	(117)	313	20
Loss allowance amount as at 31 December 2019	90,033	43,605	14,329	147,967

Note a: The unwind of discount on Stage 3 financial assets is reported within 'interest income', so that interest income is recognized on the amortized cost (after deducting the ECL allowance).

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For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.3 Movements of gross carrying amount and ECL allowance (continued)

Movement of ECL allowance – loans and advances to customers

	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Loans and advances to customers				
Loss allowance amount as at 1 January 2020	228,363	60,402	28,645	317,410
Transfers:				
Transfer from Stage 1 to Stage 2	(962)	962	–	–
Transfer from Stage 1 to Stage 3	(130)	–	130	–
Transfer from Stage 2 to Stage 1	27,541	(27,541)	–	–
Transfer from Stage 2 to Stage 3	–	(2,529)	2,529	–
Transfer from Stage 3 to Stage 1	23	–	(23)	–
Transfer from Stage 3 to Stage 2	–	37	(37)	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	65,083	(4,129)	(626)	60,328
Changes in PDs/LGDs/EADs	(498)	24,327	13,284	37,113
Unwind of discount (Note a)	1,487	643	304	2,434
Write-offs	–	–	(1,449)	(1,449)
Foreign Exchange and other movements	(554)	83	392	(79)
Loss allowance amount as at 30 June 2020	320,353	52,255	43,149	415,757

	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Loans and advances to customers				
Loss allowance amount as at 1 January 2019	176,698	31,962	23,554	232,214
Transfers:				
Transfer from Stage 1 to Stage 2	(1,350)	1,350	–	–
Transfer from Stage 1 to Stage 3	(151)	–	151	–
Transfer from Stage 2 to Stage 1	17,846	(17,846)	–	–
Transfer from Stage 2 to Stage 3	–	(640)	640	–
Transfer from Stage 3 to Stage 1	13	–	(13)	–
Transfer from Stage 3 to Stage 2	–	506	(506)	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	39,716	5,016	860	45,592
Changes in PDs/LGDs/EADs	(3,913)	39,452	10,345	45,884
Unwind of discount (Note a)	–	761	–	761
Write-offs	–	–	(6,794)	(6,794)
Foreign Exchange and other movements	(496)	(159)	408	(247)
Loss allowance amount as at 31 December 2019	228,363	60,402	28,645	317,410

Note a: The unwind of discount on Stage 3 financial assets is reported within 'interest income', so that interest income is recognized on the amortized cost (after deducting the ECL allowance).

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.3 Movements of gross carrying amount and ECL allowance (continued)

Movement of gross amount – debt securities at fair value through other comprehensive income

Debt securities at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	122,232,308	–	–	122,232,308
New financial assets originated or purchased, assets derecognized, repayments and further lending	45,795,821	–	–	45,795,821
Foreign exchange and other movements	(833,559)	–	–	(833,559)
Gross carrying amount as at 30 June 2020	167,194,570	–	–	167,194,570

Debt securities at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	109,305,072	–	–	109,305,072
New financial assets originated or purchased, assets derecognized, repayments and further lending	13,396,487	–	–	13,396,487
Foreign exchange and other movements	(469,251)	–	–	(469,251)
Gross carrying amount as at 31 December 2019	122,232,308	–	–	122,232,308

Movement of ECL allowance – debt securities at fair value through other comprehensive income

Debt securities at fair value through other comprehensive income	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL Allowance	Total
Loss allowance amount as at 1 January 2020	121,331	–	–	121,331
New financial assets originated or purchased, assets derecognized, repayments and further lending	88,020	–	–	88,020
Changes in PDs/LGDs/EADs	69,967	–	–	69,967
Unwind of discount (Note a)	892	–	–	892
Loss allowance amount as at 30 June 2020	280,210	–	–	280,210

Debt securities at fair value through other comprehensive income	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Loss allowance amount as at 1 January 2019	61,089	–	–	61,089
New financial assets originated or purchased, assets derecognized, repayments and further lending	52,428	–	–	52,428
Changes in PDs/LGDs/EADs	7,814	–	–	7,814
Loss allowance amount as at 31 December 2019	121,331	–	–	121,331

Note a: The unwind of discount on Stage 3 financial assets is reported within 'interest income', so that interest income is recognized on the amortized cost (after deducting the ECL allowance).

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Fair value of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Bank are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed periodically.

Fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1: The fair value of financial instruments traded in active markets is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value for level 2 financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- Calculation of the present value of the estimated future cash flows based on observable yield curves for interest rate swaps.
- The fair value of foreign currency forwards is determined using forward exchange rates at the balance sheet date.
- The fair value of the remaining financial instruments is determined using discounted cash flow analysis.

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Fair value of financial assets and liabilities *(continued)*

(b) Financial assets and financial liabilities measured at fair value on a recurring basis

The table below summarizes the information relating to the fair value hierarchy of the financial assets and financial liabilities measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
As at 30 June 2020				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	34,049	–	–	34,049
Derivative financial instruments				
– Foreign exchange contracts	–	425,366	–	425,366
– Interest rate contracts and others	–	25,772	–	25,772
	34,049	451,138	–	485,187
As at 30 June 2020				
Financial assets at fair value through other comprehensive income				
Debt securities				
– Governments and central banks	26,613,270	641,432	–	27,254,702
– Banks and other financial institutions	80,434,038	19,741,644	–	100,175,682
– Corporate entities	39,358,893	405,293	–	39,764,186
Equity securities				
– Banks and other financial institutions	–	–	9,793	9,793
	146,406,201	20,788,369	9,793	167,204,363
Total financial assets measured at fair value	146,440,250	21,239,507	9,793	167,689,550
As at 30 June 2020				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
– Foreign exchange contracts	–	1,182,666	–	1,182,666
– Interest rate contracts and others	–	2,181,909	–	2,181,909
Total financial liabilities measured at fair value	–	3,364,575	–	3,364,575

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Fair value of financial assets and liabilities *(continued)*

(b) Financial assets and financial liabilities measured at fair value on a recurring basis (continued)

	Level 1	Level 2	Level 3	Total
As at 31 December 2019				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	189,962	–	–	189,962
Derivative financial instruments				
– Foreign exchange contracts	–	773,118	–	773,118
– Interest rate contracts and others	–	101,846	–	101,846
	189,962	874,964	–	1,064,926
As at 31 December 2019				
Financial assets at fair value through other comprehensive income				
Debt securities				
– Governments and central banks	22,084,902	–	–	22,084,902
– Banks and other financial institutions	65,751,353	16,149,042	–	81,900,395
– Corporate entities	18,247,011	–	–	18,247,011
Equity securities				
– Banks and other financial institutions	–	–	9,965	9,965
	106,083,266	16,149,042	9,965	122,242,273
Total financial assets measured at fair value	106,273,228	17,024,006	9,965	123,307,199
As at 31 December 2019				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
– Foreign exchange contracts	–	951,285	–	951,285
– Interest rate contracts and others	–	217,513	–	217,513
Total financial liabilities measured at fair value	–	1,168,798	–	1,168,798

There was no transfer between level 1, 2 and 3 during the period (31 December 2019: Nil).

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Bank are subject to enforceable master netting arrangements or similar agreements. The agreement between the Bank and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Bank are not offset in accordance with HKFRS.

The following table presents the recognized financial instruments that are subject to enforceable master netting arrangements and other similar agreements but not offset, as at 30 June 2020 and 31 December 2019. The column 'net amount' shows the impact on the Bank's statement of financial position if all set-off rights were exercised.

	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset		Net amount
				Financial instruments (including non-cash collateral)	Cash collateral received	
As at 30 June 2020						
Financial assets						
Derivative financial instruments	451,138	–	451,138	(335,985)	(68,510)	46,643
Financial assets at fair value through other comprehensive income	25,458,356	–	25,458,356	(22,906,165)	–	2,552,191
Total	25,909,494	–	25,909,494	(23,242,150)	(68,510)	2,598,834
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset		Net amount
				Financial instruments (including non-cash collateral)	Cash collateral advanced	
As at 30 June 2020						
Financial liabilities						
Derivative financial instruments	3,364,575	–	3,364,575	(335,985)	(773,295)	2,255,295
Due to banks and other financial institutions	22,906,165	–	22,906,165	(22,906,165)	–	–
Total	26,270,740	–	26,270,740	(23,242,150)	(773,295)	2,255,295

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Offsetting financial assets and financial liabilities *(continued)*

	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset		Net amount
				Financial instruments (including non-cash collateral)	Cash collateral received	
As at 31 December 2019						
Financial assets						
Derivative financial instruments	874,964	–	874,964	(696,273)	(2,093)	176,598
Financial assets at fair value through other comprehensive income	11,067,402	–	11,067,402	(10,459,812)	–	607,590
Total	11,942,366	–	11,942,366	(11,156,085)	(2,093)	784,188

	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset		Net amount
				Financial instruments (including non-cash collateral)	Cash collateral advanced	
As at 31 December 2019						
Financial liabilities						
Derivative financial instruments	1,168,798	–	1,168,798	(696,273)	(217,465)	255,060
Due to banks and other financial institutions	10,459,812	–	10,459,812	(10,459,812)	–	–
Total	11,628,610	–	11,628,610	(11,156,085)	(217,465)	255,060

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

4 NET INTEREST INCOME

	Six months ended 30 June	
	2020	2019
Interest income		
Due from banks and other financial institutions	265,365	215,642
Loans and advances to customers	1,058,280	1,004,250
Financial assets at fair value through other comprehensive income	1,497,688	1,861,481
	2,821,333	3,081,373
Interest expense		
Due to banks and other financial institutions	(290,487)	(243,015)
Due to customers	(1,455,313)	(1,286,452)
	(1,745,800)	(1,529,467)
Net interest income	1,075,533	1,551,906

5 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2020	2019
Settlement service	19,002	23,289
Interchange service	11,569	21,389
Credit facilities, guarantee and commitment	1,404	1,161
Agency service	344,787	336,077
Depository service	28,553	28,042
Others	2,905	2,978
	408,220	412,936

6 FEE AND COMMISSION EXPENSE

	Six months ended 30 June	
	2020	2019
Settlement and brokerage service	15,993	19,882
Interchange service	5,134	5,208
Others	5,865	3,533
	26,992	28,623

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

7 DIVIDEND INCOME

	Six months ended 30 June	
	2020	2019
Financial assets at fair value through other comprehensive income – unlisted investments	35	35

8 NET GAINS/(LOSSES) ARISING FROM TRADING ACTIVITIES

	Six months ended 30 June	
	2020	2019
Foreign exchange	269,988	(138,738)
Interest rate instruments and others	53,546	(445)
Debt securities at fair value through profit or loss	19,596	27,726
Net losses of interest rate instruments and items under fair value hedge	(18,444)	(172)
	324,686	(111,629)

Net gains/(losses) on foreign exchange include gains or losses from the trading of spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into HK\$.

Net gains/(losses) on interest rate instruments and others include trading gains and losses and fair value changes of interest rate swaps, interest rate options and other derivatives.

9 OTHER OPERATING INCOME

	Six months ended 30 June	
	2020	2019
Management fee from a branch of the ultimate holding company	1,656	3,336
Others	5,711	5,902
	7,367	9,238

Others mainly include income arising from miscellaneous banking services provided to the Bank's customers.

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

10 CHANGE IN EXPECTED CREDIT LOSSES ("ECL")

	Six months ended 30 June	
	2020	2019
Change in ECL allowance		
Loans and advances to customers (Note 3.1.3)	99,875	5,508
Financial investments	158,879	18,854
Cash and balances with central bank	1	–
Other receivables	1,045	622
Due from banks and other financial institutions	(1,996)	(1,176)
Financial guarantee and credit related commitments	8,208	(1,922)
	266,012	21,886

11 OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2020	2019
Staff costs		
– salaries and other allowances	214,951	237,266
– retirement benefit costs	18,705	16,945
General operational and administrative expenses	89,605	97,327
Depreciation and amortization	11,506	14,525
Depreciation of right-of-use assets	91,292	74,819
Auditor's remuneration	2,100	2,100
Buildings administration fee	4,534	5,164
Rental expenses	15,915	33,377
Repairs and maintenance	15,594	16,134
Printing, postage and telegram	23,279	28,782
Directors, senior management's and key personnel's emoluments	11,366	11,549
Management fee to a branch of the ultimate holding company	198,396	168,603
Finance costs – lease interest expense	2,496	2,180
Others	9,739	10,612
	709,478	719,383

Notes to the Unaudited Condensed Interim Financial Statements

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(All amounts expressed in thousands of HK\$ unless otherwise stated)

12 INCOME TAX EXPENSES

	Six months ended 30 June	
	2020	2019
Current tax		
– Hong Kong profits tax	182,236	182,747
Deferred income tax	(15,852)	(1,905)
Income tax expense	166,384	180,842

The current tax provision for the period ended 30 June 2020 and 2019 is based on the estimated assessable profit by using the Hong Kong profits tax rate of 16.5 per cent.

13 CASH AND BALANCES WITH CENTRAL BANK

	As at 30 June 2020	As at 31 December 2019
Cash	326,697	440,753
Balances with central bank	14,107,126	654,203
Less: ECL allowance	(1)	–
	14,433,822	1,094,956

14 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2020	As at 31 December 2019
Due from banks and other financial institutions	699,919	2,600,649
Placements with and loans to banks	8,622,170	15,075,568
Less: ECL allowances	(6,313)	(8,309)
	9,315,776	17,667,908

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2020	As at 31 December 2019
Derivative financial instruments (Note 16)	451,138	874,964
Debt securities at fair value through profit or loss		
Government bonds		
– Listed outside Hong Kong	34,049	34,484
– Unlisted	–	155,478
	485,187	1,064,926

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For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

Debt securities at fair value through profit or loss are analyzed by issuer as follows:

	As at 30 June 2020	As at 31 December 2019
Debt securities at fair value through profit or loss		
– Governments and central banks	34,049	189,962
	34,049	189,962

16 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilized by the Bank for trading or hedging purposes:

Currency forwards are contracts between two parties to buy or sell certain currencies at a specified future date at a predetermined price. The party agreeing to buy the underlying currency in the future assumes a long position, and the party agreeing to sell the currency in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option), on or before a set date or during a set period, a specific amount of a foreign currency at a predetermined price or to receive an interest payment based on a variable interest rate and pay a fixed interest rate or vice versa. The seller receives a premium from the purchaser in consideration for assuming foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Bank and a customer (over-the-counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognized in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

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16 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

	For hedging			For trading			Total		
	Contractual/ notional amount	Fair values		Contractual/ notional amount	Fair values		Contractual/ notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities		Assets	Liabilities
As at 30 June 2020									
Foreign exchange contracts	-	-	-	202,383,895	425,366	(1,182,666)	202,383,895	425,366	(1,182,666)
Interest rate contracts and others	58,359,843	-	(2,158,236)	1,455,674	25,772	(23,673)	59,815,517	25,772	(2,181,909)
Total amount of derivative instruments recognized	58,359,843	-	(2,158,236)	203,839,569	451,138	(1,206,339)	262,199,412	451,138	(3,364,575)
As at 31 December 2019									
Foreign exchange contracts	-	-	-	197,148,441	773,118	(951,285)	197,148,441	773,118	(951,285)
Interest rate contracts and others	25,129,426	96,572	(211,910)	749,341	5,274	(5,603)	25,878,767	101,846	(217,513)
Total amount of derivative instruments recognized	25,129,426	96,572	(211,910)	197,897,782	778,392	(956,888)	223,027,208	874,964	(1,168,798)

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Bank's derivative financial instruments outstanding at period/year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Bank and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The Bank undertakes its transactions in foreign exchange and interest rates contracts with other financial institutions and customers. Management has established limits for these contracts based on counterparty types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amounts of derivative financial instruments by original currency:

	As at 30 June 2020	As at 31 December 2019
Renminbi	30,287,880	42,237,988
United States Dollar	122,622,408	107,842,171
Hong Kong Dollar	98,196,949	67,861,606
Others	11,092,175	5,085,443
Total	262,199,412	223,027,208

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16 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Hedge accounting

The Bank applies hedge accounting on hedging its interest rate risk on certain fixed income investments, as follows:

Interest rate risk on fixed rate financial assets (fair value hedge)

The Bank holds a portfolio of fixed rate securities and therefore is exposed to changes in fair value due to movements in market rates. The Bank manages this risk exposure by entering into interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Bank. The interest rate risk component is determined as the change in fair value of the fixed rate securities arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value.

This strategy is designated as a fair value hedge. Its effectiveness is assessed by comparing changes in the fair value of the fixed rate securities attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

The Bank establishes the hedging ratio by matching the notional of the hedging instruments with the designated notional of the hedged item. Following reasons could cause ineffectiveness:

- 1) Differences between the expected and actual holding amount, as the Bank hedges to the expected maturity date but may sell the bond investment according to trading strategies;
 - 2) The credit risk of the counterparty impacts the fair value of interest rate swaps, but has no impacts on hedged items.
- a) The following table sets out the maturity profile and average interest rate of the hedging instruments used in the Bank's hedging strategies:

	Maturity					Total
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	
As at 30 June 2020						
Fair value hedge						
Interest rate						
Interest rate contract						
Notional	–	–	2,855,610	32,483,444	23,020,789	58,359,843
Average fixed interest rate	–	–	3.47%	3.44%	3.51%	3.47%
	Maturity					Total
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	
As at 31 December 2019						
Fair value hedge						
Interest rate						
Interest rate contract						
Notional	–	1,089,385	427,973	14,014,934	9,597,134	25,129,426
Average fixed interest rate	–	2.38%	2.64%	3.74%	3.92%	3.65%

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(All amounts expressed in thousands of HK\$ unless otherwise stated)

16 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Hedge accounting *(continued)*

Interest rate risk on fixed rate financial assets (fair value hedge) *(continued)*

b) The following table contains details of the hedging instruments used in the Bank's hedging strategies:

As at 30 June 2020	Notional	Carrying amount		Line item on statement of financial position	Fair value changes of the hedging instruments
		Assets	Liabilities		
Fair value hedge					
Interest rate					
Interest rate contract	58,359,843	–	(2,158,236)	Financial assets/liabilities at fair value through profit or loss	(2,108,393)

As at 31 December 2019	Notional	Carrying amount		Line item on statement of financial position	Fair value changes of the hedging instruments
		Assets	Liabilities		
Fair value hedge					
Interest rate					
Interest rate contract	25,129,426	96,572	(211,910)	Financial assets/liabilities at fair value through profit or loss	(97,377)

c) The following table contains details of the hedged exposures covered by the Bank's hedging strategies:

As at 30 June 2020	Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged item	Line item on statement of financial position	Fair value changes of the hedged items	Ineffectiveness recognized in profit or loss
Fair value hedge					
Interest rate					
Debt investments	58,983,658	2,069,824	Financial assets at fair value through other comprehensive income	1,989,932	(20,340)
Loans and advances to customers	1,689,945	131,451	Loans and advances to customers	100,017	1,896

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(All amounts expressed in thousands of HK\$ unless otherwise stated)

16 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Hedge accounting *(continued)*

Interest rate risk on fixed rate financial assets (fair value hedge) *(continued)*

c) The following table contains details of the hedged exposures covered by the Bank's hedging strategies: *(continued)*

As at 31 December 2019	Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged item	Line item on statement of financial position	Fair value changes of the hedged items	Ineffectiveness recognized in profit or loss
Fair value hedge					
Interest rate					
Debt investments	23,691,106	84,439	Financial assets at fair value through other comprehensive income	60,656	(6,004)
Loans and advances to customers	1,589,928	31,434	Loans and advances to customers	31,434	717

The following table contains information regarding the effectiveness of the hedging relationships designated by the Bank, as well as the impacts on profit or loss and other comprehensive income:

For the six months ended 30 June 2020	Gains/(losses) recognized in other comprehensive Income	Hedge ineffectiveness recognized in profit and loss	Profit and loss line item that includes hedge ineffectiveness
Fair value hedge			
Interest rate	–	(18,444)	Net gains/(losses) arising from trading activities
For the six months ended 30 June 2019			
	Gains/(losses) recognized in other comprehensive Income	Hedge ineffectiveness recognized in profit and loss	Profit and loss line item that includes hedge ineffectiveness
Fair value hedge			
Interest rate	–	(172)	Net gains/(losses) arising from trading activities

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17 LOANS AND ADVANCES TO CUSTOMERS

17.1 Loans and advances to customers

	As at 30 June 2020	As at 31 December 2019
Loans and advances to customers	90,208,135	79,519,025
Less: ECL allowance	(415,757)	(317,410)
	89,792,378	79,201,615

17.2 Analysis of loans and advances to customers by staging

As at 30 June 2020	Stage 1 allowance	Stage 2 allowance	Stage 3 allowance	Total
Gross loans and advances (Note)	89,643,479	471,214	93,442	90,208,135
ECL allowance	(320,353)	(52,255)	(43,149)	(415,757)
Net loans and advances to customers	89,323,126	418,959	50,293	89,792,378

As at 31 December 2019	Stage 1 allowance	Stage 2 allowance	Stage 3 allowance	Total
Gross loans and advances (Note)	78,885,497	571,140	62,388	79,519,025
ECL allowance	(228,363)	(60,402)	(28,645)	(317,410)
Net loans and advances to customers	78,657,134	510,738	33,743	79,201,615

Note: Included in the stage 1 balance is a fair value change of hedging adjustment of HK\$131,451,000 (31 December 2019: HK\$31,434,000) which is not subject to ECL allowance.

17.3 Credit quality of loans and advances to customers

Loans and advances to customers analyzed by security type

	As at 30 June 2020	As at 31 December 2019
Unsecured loans	21,678,606	22,323,157
Loan secured by guarantee	21,263,760	15,092,813
Collateralized and other secured loans	47,265,769	42,103,055
Gross amount of loans and advances to customers before impairment allowances	90,208,135	79,519,025

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For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 30 June 2020	As at 31 December 2019
Debt securities at fair value through other comprehensive income		
– Listed	76,000,599	56,023,727
– Unlisted	91,193,971	66,208,581
Equity securities at fair value through other comprehensive income		
– Unlisted	9,793	9,965
	167,204,363	122,242,273

The Bank has designated the investment in equity instruments issued by Joint Electronic Teller Services Limited at fair value through other comprehensive income. The Bank chose this presentation alternative because the investment was made for strategic purposes rather than with a view to profit on a subsequent sale, and there is no plan to dispose this investment in short or medium term.

The fair value of this investment is HK\$9,793,000 as at 30 June 2020 (31 December 2019: HK\$9,965,000) and a dividend of HK\$35,000 was recognized for the period ended 30 June 2020 (for the period ended 30 June 2019: HK\$35,000). There is no transfer of the cumulative gain/loss within equity.

Financial investments analyzed by issuer are as follows:

	As at 30 June 2020	As at 31 December 2019
Debt securities at fair value through other comprehensive income		
– Governments and central banks	27,254,702	22,084,902
– Banks and other financial institutions	100,175,682	81,900,395
– Corporate entities	39,764,186	18,247,011
Equity securities at fair value through other comprehensive income		
– Banks and other financial institutions	9,793	9,965
	167,204,363	122,242,273

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

19 PROPERTY AND EQUIPMENT

	Equipment	Property improvement	Total
Cost			
As at 1 January 2020	60,400	44,260	104,660
Additions	2,751	1,415	4,166
As at 30 June 2020	63,151	45,675	108,826
Accumulated depreciation			
As at 1 January 2020	(29,847)	(21,337)	(51,184)
Charge for the period	(5,313)	(4,751)	(10,064)
As at 30 June 2020	(35,160)	(26,088)	(61,248)
Net book value			
As at 30 June 2020	27,991	19,587	47,578
	Equipment	Property improvement	Total
Cost			
As at 1 January 2019	61,892	83,417	145,309
Additions	11,758	3,279	15,037
Disposal	(13,250)	(42,436)	(55,686)
As at 31 December 2019	60,400	44,260	104,660
Accumulated depreciation			
As at 1 January 2019	(31,000)	(46,891)	(77,891)
Charge for the year	(12,072)	(16,882)	(28,954)
Disposal	13,225	42,436	55,661
As at 31 December 2019	(29,847)	(21,337)	(51,184)
Net book value			
As at 31 December 2019	30,553	22,923	53,476

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For the six months ended 30 June 2020

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20 OTHER ASSETS

	As at 30 June 2020	As at 31 December 2019
Interest receivable	1,272,194	839,730
Settlement accounts	2,708,699	4,563,044
Other receivables, prepayments and others	131,991	89,960
Less: ECL allowance	(16,693)	(15,495)
Intangible assets (a)	12,157	12,198
	4,108,348	5,489,437

(a) Intangible assets

	Software
Cost	
As at 1 January 2020	13,637
Additions	1,401
As at 30 June 2020	15,038
Accumulated amortization	
As at 1 January 2020	(1,439)
Amortization expenses	(1,442)
As at 30 June 2020	(2,881)
Net book value as at 30 June 2020	12,157
	Software
Cost	
As at 1 January 2019	1,523
Additions	12,114
As at 31 December 2019	13,637
Accumulated amortization	
As at 1 January 2019	(28)
Amortization expenses	(1,411)
As at 31 December 2019	(1,439)
Net book value as at 31 December 2019	12,198

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21 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2020	As at 31 December 2019
Deposits from banks and other financial institutions	17,891,439	16,276,758
Subordinated loan from the ultimate holding company	2,000,000	2,000,000
Financial assets sold under repurchase agreements (Note 29)	22,906,165	10,459,812
Total	42,797,604	28,736,570

22 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2020	As at 31 December 2019
Derivative financial instruments (Note 16)	3,364,575	1,168,798

For the six months ended 30 June 2020 and the year ended 31 December 2019, there were no significant changes in the fair value of the Bank's financial liabilities designated as at fair value through profit or loss that were attributable to the changes in credit risk.

23 DUE TO CUSTOMERS

	As at 30 June 2020	As at 31 December 2019
Demand deposits and current accounts	9,296,701	7,904,693
Saving deposits	60,108,760	49,071,727
Time, call, notice and other deposits	140,185,843	113,778,869
	209,591,304	170,755,289
Including:		
Deposits pledged as collateral	3,415,420	2,240,493

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For the six months ended 30 June 2020

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24 OTHER LIABILITIES

	As at 30 June 2020	As at 31 December 2019
Interest payable	593,750	727,400
Settlement accounts	2,617,949	2,471,380
Withholding tax	57,123	58,064
Provision for ECL allowances on financial guarantee and credit related commitment	23,078	14,872
Others	854,670	1,211,293
Total	4,146,570	4,483,009

25 SHARE CAPITAL

	Number of shares	Share capital
As at 31 December 2019, 1 January 2020 and 30 June 2020	17,900,000,000	17,900,000

26 ADDITIONAL EQUITY INSTRUMENT

	As at 30 June 2020	As at 31 December 2019
Undated non-cumulative subordinated Additional Tier 1 capital securities with US\$500 million	3,871,450	–

In March 2020, the Bank issued USD500 million undated non-cumulative subordinated Additional Tier 1 capital securities. The capital securities are perpetual securities and listed on the Stock Exchange of Hong Kong Limited in respect of which they may be redeemed at the Bank's option on 3 March 2025 and every six months thereafter or the occurrence of certain other events. They have an initial rate of distribution of 3.725% per annum payable semi-annually in arrear in year 1 to year 5 and resettable on year 5 and every 5 years thereafter at then prevailing 5-year U.S. Treasury yield plus 2.525% per annum which maybe cancelled at sole discretion of the Bank. There are no dividend paid to the additional equity instrument holders for the period ended 30 June 2020.

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27 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Bank's financial guarantees and credit related commitments which the Bank has committed to its customers:

	As at 30 June 2020	As at 31 December 2019
Letters of guarantee	49,975	41,215
Letters of credit commitments	217,077	138,802
Acceptances bills	25,291	13,620
Credit card commitments	5,674,673	6,034,752
Other credit related commitments		
– Under 1 year	3,428,066	3,048,907
– More than 1 year	2,402,576	2,512,765
	11,797,658	11,790,061

Capital expenditure commitments

	As at 30 June 2020	As at 31 December 2019
Contracted but not provided for	4,733	7,170

Operating lease commitments

As at 30 June 2020, the Bank has non-cancellable operating lease commitments of HK\$14,008,000 (31 December 2019: Nil) related to short-term leases, which are the leases with a lease term of 12 months or less.

28 NOTES TO UNAUDITED CONDENSED INTERIM STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the unaudited condensed interim statement of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than or equal to 90 days used for the purpose of meeting short-term cash commitments:

	As at 30 June 2020	As at 31 December 2019
Cash and balances with central bank (Note 13)	14,433,822	1,094,956
Due from banks and other financial institutions	699,919	4,939,639
	15,133,741	6,034,595

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29 COLLATERALS

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties.

Sales and repurchase agreements are transactions in which the Bank sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Bank is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Bank does not have the ability to use during the term of the arrangements, are not derecognized from the financial statements but regarded as “collateral” for the secured lending from these because the Bank retains substantially all the risks and rewards of these securities. In addition, it recognizes a financial liability for cash received.

As at 30 June 2020 and 31 December 2019, the Bank entered into repurchase agreements with certain counterparties. The proceeds from selling such securities were presented as “financial assets sold under repurchase agreements” (see Note 21).

	Transferred assets		Associated liabilities	
	As at 30 June 2020	As at 31 December 2019	As at 30 June 2020	As at 31 December 2019
Investment securities	25,458,356	11,067,402	(22,906,165)	(10,459,812)

30 MATERIAL RELATED PARTY TRANSACTIONS

During the first half of 2020, the Bank has purchased and sold certain loans and advances to customers of HK\$9,857 million (30 June 2019: HK\$2,318 million) and HK\$ Nil (30 June 2019: HK\$1,021 million) with ultimate holding company respectively. Moreover, the Bank has purchased and sold certain debt securities of HK\$1,767 million (30 June 2019: HK\$21,356 million) and HK\$834 million (30 June 2019: HK\$3,385 million) with ultimate holding company respectively.

In addition to the above, all related party transactions that took place for the period ended 30 June 2020 were similar in nature to those disclosed in the 2019 Annual Report. There were no changes in the related party transactions described in the 2019 Annual Report that have had a material effect on the financial position or performance of the Bank for the period ended 30 June 2020.

31 SEGMENTAL ANALYSIS

The Bank manages the business mainly from a operating segment perspective and the majority of the Bank’s revenues, profits before tax and assets are derived from Hong Kong. The Bank is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Personal banking mainly comprises individual loans, individual deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The “Others” segment mainly comprises unallocated revenue and expenses and corporate expenses.

Notes to the Unaudited Condensed Interim Financial Statements

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31 SEGMENTAL ANALYSIS (continued)

The business information of the Bank is summarized as follows:

	Six months ended 30 June 2020				
	Corporate Banking	Personal Banking	Treasury	Others	Total
External net interest income/(expense)	312,898	(693,153)	1,455,788	–	1,075,533
Inter-segment net interest income/(expense)	(139,919)	1,498,586	(1,358,667)	–	–
Net interest income	172,979	805,433	97,121	–	1,075,533
Other operating income	10,339	394,495	448,646	125	853,605
Total operating income	183,318	1,199,928	545,767	125	1,929,138
Change in expected credit losses	12,247	(120,632)	(157,592)	(35)	(266,012)
Other operating expenses					
– Depreciation and amortization	(2,110)	(97,999)	(53)	(2,636)	(102,798)
– Others	(30,159)	(341,573)	(34,487)	(200,461)	(606,680)
Profit before tax	163,296	639,724	353,635	(203,007)	953,648
Income tax expense	–	–	–	(166,384)	(166,384)
Net profit for the period	163,296	639,724	353,635	(369,391)	787,264
As at 30 June 2020					
Segment assets	50,709,643	41,058,043	193,720,777	–	285,488,463
Unallocated assets	–	–	–	287,393	287,393
Total assets	50,709,643	41,058,043	193,720,777	287,393	285,775,856
Segment liabilities	(22,231,111)	(189,949,131)	(47,849,247)	–	(260,029,489)
Unallocated liabilities	–	–	–	(591,323)	(591,323)
Total liabilities	(22,231,111)	(189,949,131)	(47,849,247)	(591,323)	(260,620,812)
Six months ended 30 June 2019					
	Corporate Banking	Personal Banking	Treasury	Others	Total
External net interest income/(expense)	437,880	(708,001)	1,822,027	–	1,551,906
Inter-segment net interest income/(expense)	(182,272)	1,457,796	(1,275,524)	–	–
Net interest income	255,608	749,795	546,503	–	1,551,906
Other operating income	7,639	406,622	(80,437)	399	334,223
Total operating income	263,247	1,156,417	466,066	399	1,886,129
Change in expected credit losses	12,668	(16,390)	(18,152)	(12)	(21,886)
Other operating expenses					
– Depreciation and amortization	(2,038)	(83,486)	(53)	(3,767)	(89,344)
– Others	(38,217)	(403,076)	(32,295)	(156,451)	(630,039)
Profit before tax	235,660	653,465	415,566	(159,831)	1,144,860
Income tax expense	–	–	–	(180,842)	(180,842)
Net profit for the period	235,660	653,465	415,566	(340,673)	964,018
As at 31 December 2019					
Segment assets	44,332,957	36,638,607	145,994,973	–	226,966,537
Unallocated assets	–	–	–	146,463	146,463
Total assets	44,332,957	36,638,607	145,994,973	146,463	227,113,000
Segment liabilities	(17,600,926)	(156,060,154)	(31,263,776)	–	(204,924,856)
Unallocated liabilities	–	–	–	(1,102,136)	(1,102,136)
Total liabilities	(17,600,926)	(156,060,154)	(31,263,776)	(1,102,136)	(206,026,992)

Notes to the Unaudited Condensed Interim Financial Statements

For the six months ended 30 June 2020

(All amounts expressed in thousands of HK\$ unless otherwise stated)

32 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

32.1 Risks Related to Covid-19 and geopolitical tensions

Battered by the COVID-19 pandemic and the rising tension between China and the US, the Hong Kong economy faced a huge shock in the first half of 2020. Despite various macro relief measures and monetary policies having been launched by the Hong Kong Government during the first half of 2020 and certain signs of stabilization of the economy being observed towards the end of the second quarter of 2020, since early July 2020, the Covid-19 pandemic in Hong Kong has rapidly evolved with increasing numbers of local COVID-19 confirmed cases recorded. This was followed by the re-tightening and escalation of social distancing and pandemic containment measures pronounced by the Hong Kong Government. In addition, the diplomatic tensions between China and the US have further exacerbated and extended from trade conflicts to multi-disciplinary rivalry.

All these post interim reporting period end date developments, whilst considered as non-adjusting events to the unaudited condensed interim financial statements, are expected to cause an extended delay of the economic recovery, which may result in a significant impact on the profitability and asset quality of financial institutions.

These ongoing challenges create significant uncertainties in the determination of its impact and on the prediction of how the situation will evolve in the future. The Bank has continued to maintain contingency measures and business continuity plans that were in place since the beginning of the year in maintaining resilience in the business. The Bank will continue to closely monitor the development of the ongoing COVID-19 outbreak and other volatilities in the macro-economy, and to introduce additional risk management measures and appropriate adjustments to the ECL models when necessary in the second half of the year to reflect the everchanging outlook.

32.2 Loans Portfolio transfer

Subsequent to the reporting date, the Bank expanded its loans business by acquiring certain loans portfolio approximately HK\$894 million and HK\$886 million in July 2020 and August 2020 from HKBR respectively. These loan transfer transactions entered with HKBR were conducted in the ordinary and usual course of business and on normal commercial terms.

33 COMPARATIVE FIGURES

Certain comparative figures in the unaudited condensed interim financial statements have been reclassified in order to conform with current period's presentation.