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**BEA 東亞銀行**

**The Bank of East Asia, Limited**

**東亞銀行有限公司**

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

## **ANNOUNCEMENT OF 2019 INTERIM RESULTS**

### **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 30<sup>th</sup> June, 2019.

### **Consolidated Income Statement**

|                                                                |       | 6 months<br>ended<br>30/6/2019 | 6 months<br>ended<br>30/6/2018 |
|----------------------------------------------------------------|-------|--------------------------------|--------------------------------|
|                                                                | Notes | HK\$ Mn                        | HK\$ Mn                        |
| Interest income                                                | 3     | 14,556                         | 12,183                         |
| Interest income calculated using the effective interest method |       | 14,259                         | 11,943                         |
| Other interest income                                          |       | 297                            | 240                            |
| Interest expense                                               | 4     | (7,150)                        | (5,933)                        |
| Net interest income                                            |       | 7,406                          | 6,250                          |
| Fee and commission income                                      | 5     | 1,895                          | 1,935                          |
| Fee and commission expense                                     |       | (524)                          | (573)                          |
| Net fee and commission income                                  |       | 1,371                          | 1,362                          |
| Net trading profits                                            | 6     | 416                            | 556                            |
| Net result from other financial instruments at FVTPL           | 7     | 129                            | (142)                          |
| Net hedging profit                                             | 8     | 17                             | 16                             |
| Net insurance revenue                                          | 9     | 574                            | 264                            |
| Other operating income                                         | 10    | 189                            | 220                            |
| Non-interest income                                            |       | 2,696                          | 2,276                          |
| Operating income                                               |       | 10,102                         | 8,526                          |
| Operating expenses                                             | 11    | (4,918)                        | (4,186)                        |
| Operating profit before impairment losses                      |       | 5,184                          | 4,340                          |
| Impairment losses on financial instruments                     | 12    | (5,063)                        | (282)                          |
| Impairment losses on intangible assets                         |       | -                              | (1)                            |
| Impairment losses                                              |       | (5,063)                        | (283)                          |
| Operating profit after impairment losses                       |       | 121                            | 4,057                          |
| Net loss on sale of investments measured at amortised cost     |       | (5)                            | -                              |
| Net profit on sale of financial assets measured at FVOCI       | 13    | 104                            | 49                             |
| Net profit on sale of assets held for sale                     | 14    | 82                             | 10                             |
| Net loss on disposal of subsidiaries                           |       | (6)                            | -                              |
| Net loss on disposal of fixed assets                           | 15    | (6)                            | (10)                           |
| Valuation gains on investment properties                       | 23    | 18                             | 394                            |
| Share of profits less losses of associates                     |       | 328                            | 281                            |
| Profit for the period before taxation                          |       | 636                            | 4,781                          |
| Income tax                                                     | 16    | 402                            | (762)                          |
| Profit for the period                                          |       | 1,038                          | 4,019                          |
| Attributable to:                                               |       |                                |                                |
| Owners of the parent                                           |       | 1,000                          | 3,992                          |
| Non-controlling interests                                      |       | 38                             | 27                             |
| Profit for the period                                          |       | 1,038                          | 4,019                          |
| Profit for the Bank                                            |       | 3,246                          | 3,369                          |
| Earnings per share                                             |       |                                |                                |
| Basic - profit for the period                                  | 1(b)  | HK\$0.22                       | HK\$1.30                       |
| Diluted - profit for the period                                | 1(b)  | HK\$0.22                       | HK\$1.30                       |

## Consolidated Statement of Comprehensive Income

|                                                                                                                      |       | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|----------------------------------------------------------------------------------------------------------------------|-------|-------------------------------------------|-------------------------------------------|
|                                                                                                                      | Notes |                                           |                                           |
| Net profit                                                                                                           |       | 1,038                                     | 4,019                                     |
| Other comprehensive income for the period:                                                                           |       |                                           |                                           |
| Items that will not be reclassified to income statement:                                                             |       |                                           |                                           |
| Premises:                                                                                                            |       |                                           |                                           |
| - unrealised surplus on revaluation of premises                                                                      |       | -                                         | 8                                         |
| - deferred taxes                                                                                                     | 31    | 1                                         | (8)                                       |
| Fair value reserve (equity instruments):                                                                             |       |                                           |                                           |
| - net change in fair value                                                                                           |       | 418                                       | 254                                       |
| - deferred taxes                                                                                                     | 31    | (7)                                       | (4)                                       |
| Liability credit reserve:                                                                                            |       |                                           |                                           |
| - net change in fair value attributable to Group's own credit risk                                                   |       | -                                         | (5)                                       |
| - deferred taxes                                                                                                     | 31    | (1)                                       | 1                                         |
| Items that may be reclassified subsequently to income statement:                                                     |       |                                           |                                           |
| Fair value reserve (debt instruments):                                                                               |       |                                           |                                           |
| - net change in fair value                                                                                           |       | 986                                       | (479)                                     |
| - amount transferred to income statement on disposal                                                                 | 13    | (66)                                      | (23)                                      |
| - on amortisation                                                                                                    |       | (2)                                       | (2)                                       |
| - deferred taxes                                                                                                     | 31    | (39)                                      | 12                                        |
| Hedging reserve (cash flow hedges):                                                                                  |       |                                           |                                           |
| - effective portion of changes in fair value of hedging instruments                                                  |       | (4)                                       | (6)                                       |
| - fair value change reclassified from income statements                                                              |       | (4)                                       | 7                                         |
| Share of changes in equity of associates                                                                             |       | 71                                        | (58)                                      |
| Exchange differences arising from translation of accounts/disposal of overseas branches, subsidiaries and associates |       | 52                                        | (489)                                     |
| Other comprehensive income                                                                                           |       | 1,405                                     | (792)                                     |
| Total comprehensive income                                                                                           |       | 2,443                                     | 3,227                                     |
| Total comprehensive income attributable to:                                                                          |       |                                           |                                           |
| Owners of the parent                                                                                                 |       | 2,411                                     | 3,189                                     |
| Non-controlling interests                                                                                            |       | 32                                        | 38                                        |
|                                                                                                                      |       | 2,443                                     | 3,227                                     |

## Consolidated Statement of Financial Position

|                                                                        | Notes | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|------------------------------------------------------------------------|-------|----------------------|-----------------------|
| <b>ASSETS</b>                                                          |       |                      |                       |
| Cash and balances with banks and other financial institutions          | 17    | 52,823               | 48,106                |
| Placements with and advances to banks and other financial institutions | 18    | 69,720               | 60,373                |
| Trade bills                                                            | 19    | 12,826               | 14,646                |
| Trading assets                                                         | 20    | 4,131                | 3,483                 |
| Derivative assets                                                      | 38(a) | 6,141                | 10,211                |
| Loans and advances to customers                                        | 21    | 506,099              | 498,284               |
| Investment securities                                                  | 22    | 157,212              | 144,729               |
| Investments in associates                                              |       | 9,675                | 9,129                 |
| Fixed assets                                                           | 23    | 14,222               | 13,165                |
| - Investment properties                                                |       | 5,266                | 5,249                 |
| - Other properties and equipment                                       |       | 7,873                | 7,916                 |
| - Right-of-use assets                                                  |       | 1,083                | -                     |
| Goodwill and intangible assets                                         |       | 1,933                | 1,940                 |
| Deferred tax assets                                                    | 31    | 1,565                | 481                   |
| Other assets                                                           | 24    | 40,431               | 34,904                |
| Total Assets                                                           |       | 876,778              | 839,451               |
| <b>EQUITY AND LIABILITIES</b>                                          |       |                      |                       |
| Deposits and balances of banks and other financial institutions        |       | 36,057               | 27,490                |
| - Designated at fair value through profit or loss                      | 25    | 3,535                | 1,335                 |
| - At amortised cost                                                    |       | 32,522               | 26,155                |
| Deposits from customers                                                |       | 582,105              | 574,114               |
| - Demand deposits and current accounts                                 |       | 62,791               | 71,952                |
| - Savings deposits                                                     |       | 131,735              | 130,477               |
| - Time, call and notice deposits                                       |       | 387,579              | 371,685               |
| Trading liabilities                                                    | 26    | 38                   | -                     |
| Derivative liabilities                                                 | 38(a) | 8,139                | 9,496                 |
| Certificates of deposit issued                                         |       | 63,903               | 58,490                |
| - Designated at fair value through profit or loss                      | 25    | 20,275               | 9,462                 |
| - At amortised cost                                                    |       | 43,628               | 49,028                |
| Current taxation                                                       |       | 1,682                | 1,437                 |
| Debt securities issued                                                 |       | 3,106                | 564                   |
| - Designated at fair value through profit or loss                      | 25    | 109                  | 407                   |
| - At amortised cost                                                    |       | 2,997                | 157                   |
| Deferred tax liabilities                                               | 31    | 583                  | 483                   |
| Other liabilities                                                      | 27    | 61,984               | 51,444                |
| Loan capital                                                           | 28    | 14,193               | 12,358                |
| Total Liabilities                                                      |       | 771,790              | 735,876               |
| Share capital                                                          | 1(d)  | 41,194               | 39,925                |
| Reserves                                                               | 32    | 52,061               | 51,901                |
| Total equity attributable to owners of the parent                      |       | 93,255               | 91,826                |
| Additional equity instruments                                          | 33    | 8,894                | 8,894                 |
| Non-controlling interests                                              |       | 2,839                | 2,855                 |
| Total Equity                                                           |       | 104,988              | 103,575               |
| Total Equity and Liabilities                                           |       | 876,778              | 839,451               |

## 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 | Hedging reserve | Liability credit reserve | Other reserves <sup>Note</sup> | 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                   | HK\$ Mn      |
| At 1 <sup>st</sup> January, 2019                              | 39,925        | 14,054          | 1,752                                | 933             | (1,426)                      | 158                                          | 664                | 15              | (3)                      | 4,963                          | 30,791           | 91,826  | 8,894                         | 2,855                     | 103,575      |
| Changes in equity                                             |               |                 |                                      |                 |                              |                                              |                    |                 |                          |                                |                  |         |                               |                           |              |
| Profit for the period                                         | -             | -               | -                                    | -               | -                            | -                                            | -                  | -               | -                        | -                              | 1,000            | 1,000   | -                             | 38                        | 1,038        |
| Other comprehensive income                                    | -             | -               | 1                                    | -               | 58                           | -                                            | 1,290              | (8)             | (1)                      | 71                             | -                | 1,411   | -                             | (6)                       | 1,405        |
| Total comprehensive income                                    | -             | -               | 1                                    | -               | 58                           | -                                            | 1,290              | (8)             | (1)                      | 71                             | 1,000            | 2,411   | -                             | 32                        | 2,443        |
| Shares issued in lieu of dividend (Note 1(d))                 | 1,269         | -               | -                                    | -               | -                            | -                                            | -                  | -               | -                        | -                              | -                | 1,269   | -                             | -                         | 1,269        |
| Equity settled share-based transaction                        | -             | -               | -                                    | -               | -                            | 12                                           | -                  | -               | -                        | -                              | -                | 12      | -                             | -                         | 12           |
| Transfer                                                      | -             | 5               | (5)                                  | 95              | -                            | (18)                                         | -                  | -               | -                        | 287                            | (364)            | -       | -                             | -                         | -            |
| Distribution/Dividends declared or approved during the period | -             | -               | -                                    | -               | -                            | -                                            | -                  | -               | -                        | -                              | (2,263)          | (2,263) | -                             | (52)                      | (2,315)      |
| Change of ownership in subsidiaries                           | -             | -               | -                                    | -               | -                            | -                                            | -                  | -               | -                        | -                              | -                | -       | -                             | 4                         | 4            |
| At 30 <sup>th</sup> June, 2019                                | 41,194        | 14,059          | 1,748                                | 1,028           | (1,368)                      | 152                                          | 1,954              | 7               | (4)                      | 5,321                          | 29,164           | 93,255  | 8,894                         | 2,839                     | 104,988      |
| At 1 <sup>st</sup> January, 2018                              | 37,527        | 14,060          | 1,757                                | 230             | 487                          | 135                                          | 1,454              | 11              | -                        | 4,931                          | 28,890           | 89,482  | 8,894                         | 2,838                     | 101,214      |
| Impact of adopting HKFRS 9 at 1 <sup>st</sup> January, 2018   | -             | -               | -                                    | -               | -                            | -                                            | (162)              | -               | (6)                      | -                              | (32)             | (200)   | -                             | -                         | (200)        |
| Restated balance at 1st January, 2018                         | 37,527        | 14,060          | 1,757                                | 230             | 487                          | 135                                          | 1,292              | 11              | (6)                      | 4,931                          | 28,858           | 89,282  | 8,894                         | 2,838                     | 101,014      |
| Changes in equity                                             |               |                 |                                      |                 |                              |                                              |                    |                 |                          |                                |                  |         |                               |                           |              |
| Profit for the period                                         | -             | -               | -                                    | -               | -                            | -                                            | -                  | -               | -                        | -                              | 3,992            | 3,992   | -                             | 27                        | 4,019        |
| Other comprehensive income                                    | -             | -               | -                                    | -               | (500)                        | -                                            | (242)              | 1               | (4)                      | (58)                           | -                | (803)   | -                             | 11                        | (792)        |
| Total comprehensive income                                    | -             | -               | -                                    | -               | (500)                        | -                                            | (242)              | 1               | (4)                      | (58)                           | 3,992            | 3,189   | -                             | 38                        | 3,227        |
| Shares issued in lieu of dividend                             | 1,271         | -               | -                                    | -               | -                            | -                                            | -                  | -               | -                        | -                              | -                | 1,271   | -                             | -                         | 1,271        |
| Shares issued under Staff Share Option Schemes (Note 1(d))    | 73            | -               | -                                    | -               | -                            | -                                            | -                  | -               | -                        | -                              | -                | 73      | -                             | -                         | 73           |
| Equity settled share-based transaction                        | -             | -               | -                                    | -               | -                            | 17                                           | -                  | -               | -                        | -                              | -                | 17      | -                             | -                         | 17           |
| Transfer                                                      | 12            | (6)             | -                                    | 728             | -                            | (12)                                         | -                  | -               | -                        | 48                             | (770)            | -       | -                             | -                         | -            |
| Distribution/Dividends declared or approved during the period | -             | -               | -                                    | -               | -                            | -                                            | -                  | -               | -                        | -                              | (2,017)          | (2,017) | -                             | (45)                      | (2,062)      |
| Change of ownership in subsidiaries                           | -             | -               | -                                    | -               | -                            | -                                            | -                  | -               | -                        | -                              | -                | -       | -                             | 55                        | 55           |
| At 30 <sup>th</sup> June, 2018                                | 38,883        | 14,054          | 1,757                                | 958             | (13)                         | 140                                          | 1,050              | 12              | (10)                     | 4,921                          | 30,063           | 91,815  | 8,894                         | 2,886                     | 103,595      |

Note: Other reserves include statutory reserve and other reserves.

## Condensed Consolidated Cash Flow Statement

|                                                                     | Notes | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|---------------------------------------------------------------------|-------|-------------------------------------------|-------------------------------------------|
| NET CASH INFLOW/(OUTFLOW) FROM OPERATIONS                           |       | 7,706                                     | (10,995)                                  |
| Income tax paid                                                     |       |                                           |                                           |
| Hong Kong profits tax paid                                          |       | (16)                                      | (2)                                       |
| Outside Hong Kong profits tax paid                                  |       | (382)                                     | (469)                                     |
| NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES              |       | 7,308                                     | (11,466)                                  |
| INVESTING ACTIVITIES                                                |       |                                           |                                           |
| Dividends received from associates                                  |       | 1                                         | 6                                         |
| Dividends received from non-trading equity securities               |       | 4                                         | 8                                         |
| Purchase of non-trading equity securities                           |       | (2,993)                                   | (1,187)                                   |
| Proceeds from sale of non-trading equity securities                 |       | 4,279                                     | 1,092                                     |
| Purchase of fixed assets                                            |       | (407)                                     | (203)                                     |
| Proceeds from disposal of other properties and equipment            |       | 16                                        | 15                                        |
| Proceeds from sale of assets held for sale                          |       | 372                                       | 49                                        |
| Increase of shareholding in associates                              |       | (149)                                     | (111)                                     |
| NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES              |       | 1,123                                     | (331)                                     |
| FINANCING ACTIVITIES                                                |       |                                           |                                           |
| Ordinary dividends paid                                             |       | (689)                                     | (434)                                     |
| Distribution to Hybrid/Additional Tier 1 issue holders              | 1(c)  | (357)                                     | (357)                                     |
| Issue of ordinary share capital                                     |       | -                                         | 73                                        |
| Issue of certificates of deposit                                    |       | 54,839                                    | 46,579                                    |
| Issue of debt securities                                            |       | 2,841                                     | 113                                       |
| Issue of loan capital                                               |       | 1,705                                     | -                                         |
| Payment of lease liabilities                                        |       | (181)                                     | -                                         |
| Redemption of certificates of deposit issued                        |       | (49,699)                                  | (32,448)                                  |
| Redemption of debt securities issued                                |       | (300)                                     | (266)                                     |
| Interest paid on loan capital                                       |       | (361)                                     | (314)                                     |
| Interest paid on certificates of deposit and debt securities issued |       | (818)                                     | (382)                                     |
| NET CASH GENERATED FROM FINANCING ACTIVITIES                        |       | 6,980                                     | 12,564                                    |
| NET INCREASE IN CASH AND CASH EQUIVALENTS                           |       | 15,411                                    | 767                                       |
| CASH AND CASH EQUIVALENTS AT 1 <sup>ST</sup> JANUARY                |       | 86,020                                    | 89,980                                    |
| Effect of foreign exchange rate changes                             |       | (74)                                      | (934)                                     |
| CASH AND CASH EQUIVALENTS AT 30 <sup>TH</sup> JUNE                  | 34    | 101,357                                   | 89,813                                    |
| Cash flows from operating activities included:                      |       |                                           |                                           |
| Interest received                                                   |       | 14,563                                    | 11,673                                    |
| Interest paid                                                       |       | 6,909                                     | 5,836                                     |
| Dividend received                                                   |       | 25                                        | 37                                        |

Notes:

1. (a) The information in this announcement is not audited or reviewed by the external auditors but is extracted from the interim report prepared under HKAS 34 “Interim Financial Reporting” issued by the HKICPA. Hence this announcement does not constitute the Group’s statutory accounts. The interim report, which has been reviewed by the Bank’s Audit Committee, is prepared on a basis consistent with the accounting policies and methods of computation adopted in the 2018 audited accounts, except for the accounting policy changes required under new HKFRSs and amendments that are first effective for the current accounting period as described in note 2 below, or otherwise explicitly stated, and 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, whose unmodified review report is included in the interim report which will be published on the websites of the HKEx and the Bank, together with the disclosures required by the Banking (Disclosure) Rules issued by the HKMA.

The financial information relating to the financial year ended 31<sup>st</sup> December, 2018 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 31<sup>st</sup> December 2018 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\$643 million (six months ended 30<sup>th</sup> June, 2018: HK\$3,635 million) respectively after the distribution of HK\$357 million (six months ended 30<sup>th</sup> June, 2018: HK\$357 million) to Hybrid/Additional Tier 1 issue holders, and on the weighted average of 2,869 million (six months ended 30<sup>th</sup> June, 2018: 2,786 million) ordinary shares outstanding during the six months ended 30<sup>th</sup> June, 2019.
- (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\$643 million (six months ended 30<sup>th</sup> June, 2018: HK\$3,635 million) respectively after the distribution of HK\$357 million (six months ended 30<sup>th</sup> June, 2018: HK\$357 million) to Hybrid/Additional Tier 1 issue holders, and on 2,869 million (six months ended 30<sup>th</sup> June, 2018: 2,787 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30<sup>th</sup> June, 2019, 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<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Interim dividend declared after the interim period of HK\$0.11 per share on 2,897 million shares (six months ended 30 <sup>th</sup> June, 2018: HK\$0.51 per share on 2,808 million shares) | 319                                       | 1,432                                     |

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

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

|                                                                                                                                                                                                                                                                                    | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Second interim dividend paid in respect of the previous financial year on shares issued under the share option schemes subsequent to the end of the reporting period and before the close of the Register of Members of the Bank, of HK\$0.32 per share (2018: HK\$0.60 per share) | -                                         | 1                                         |
| Second interim dividend of HK\$0.32 per share on 2,846 million shares (2018: HK\$0.60 per share on 2,765 million shares)                                                                                                                                                           | 910                                       | 1,659                                     |
| Special dividend of HK\$0.35 per share on 2,846 million shares                                                                                                                                                                                                                     | 996                                       | -                                         |
|                                                                                                                                                                                                                                                                                    | <u>1,906</u>                              | <u>1,660</u>                              |

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

|                                                                   | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|-------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Interest paid or payable on the Hybrid Tier 1 capital instruments | 106                                       | 106                                       |
| Amount paid on the Additional Tier 1 capital instruments          | 251                                       | 251                                       |
|                                                                   | <u>357</u>                                | <u>357</u>                                |

(d) Share Capital

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

|                                                                                   | At 30 <sup>th</sup> June, 2019 |               | At 31 <sup>st</sup> December, 2018 |               |
|-----------------------------------------------------------------------------------|--------------------------------|---------------|------------------------------------|---------------|
|                                                                                   | No. of<br>shares               |               | No. of<br>shares                   |               |
|                                                                                   | Mn                             | HK\$ Mn       | Mn                                 | HK\$ Mn       |
| Ordinary shares, issued and fully paid:                                           |                                |               |                                    |               |
| At 1st January                                                                    | 2,846                          | 39,925        | 2,765                              | 37,527        |
| Shares issued under Staff Share Option Schemes                                    | -                              | -             | 3                                  | 73            |
| Transfer of the fair value of options from capital reserve – share options issued | -                              | -             | -                                  | 12            |
| Share issued in lieu of dividend                                                  | 51                             | 1,269         | 78                                 | 2,313         |
| At 30 <sup>th</sup> June/31 <sup>st</sup> December                                | <u>2,897</u>                   | <u>41,194</u> | <u>2,846</u>                       | <u>39,925</u> |

## 2. Changes in Accounting Policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31<sup>st</sup> December, 2018.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31<sup>st</sup> December, 2019.

The Group has initially adopted HKFRS 16 Leases from 1<sup>st</sup> January, 2019. A number of other new standards are effective 1<sup>st</sup> January, 2019 but they do not have a material effect on the Group's financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied HKFRS 16 using the modified retrospective approach, under which the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under HKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

### (a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under HKFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease. Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

### (b) As a lessee

The Group leases many assets, including properties and equipments.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards of ownership. Under HKFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases that have a lease term of 12 months or less ("short-term leases"), and leases of underlying assets with an approximate value of HK\$0.04 million or less ("low-value assets"). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presented right-of-use assets in 'fixed assets', the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below.

|                                    | Right-of-use assets |                     |              |
|------------------------------------|---------------------|---------------------|--------------|
|                                    | Bank                | Furniture,          | <u>Total</u> |
|                                    | <u>premises</u>     | <u>fixtures and</u> |              |
|                                    | HK\$ Mn             | equipment           | HK\$ Mn      |
| Balance at 1 <sup>st</sup> January | 1,099               | 9                   | 1,108        |
| Balance at 30 <sup>th</sup> June   | 1,073               | 10                  | 1,083        |

The Group presented lease liabilities in 'other liabilities' in the statement of financial position.

i. Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is initially measured at cost, and subsequently at fair value, in accordance with the Group's accounting policies.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

ii. Transition

At transition, for leases classified as operating leases under HKAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1<sup>st</sup> January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all leases.

The Group used the following practical expedients when applying HKFRS 16 to leases previously classified as operating leases under HKAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains option to extend or terminate the lease.

(c) As a lessor

The Group leases out its investment properties as the lessor of operating leases.

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

(d) Impacts on transition

On transition to HKFRS 16, the Group recognised an additional right-of-use assets and additional lease liabilities, with adjustment of prepaid and accrued lease payments. The impact on transition is summarised below.

|                          | Carrying amount at<br>31 <sup>st</sup> December, 2018 | Capitalisation of<br>Operating lease<br>contracts | Carrying amount at<br>1 <sup>st</sup> January, 2019 |
|--------------------------|-------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------|
|                          | HK\$ Mn                                               | HK\$ Mn                                           | HK\$ Mn                                             |
| Fixed assets             |                                                       |                                                   |                                                     |
| - Right-of-use assets    | -                                                     | 1,108                                             | 1,108                                               |
| Other assets             |                                                       |                                                   |                                                     |
| - Other accounts         | 9,294                                                 | (20)                                              | 9,274                                               |
| <b>Total Assets</b>      | <b>839,451</b>                                        | <b>1,088</b>                                      | <b>840,539</b>                                      |
| Other liabilities        |                                                       |                                                   |                                                     |
| - Lease liabilities      | -                                                     | 1,094                                             | 1,094                                               |
| - Other accounts         | 26,300                                                | (6)                                               | 26,294                                              |
| <b>Total Liabilities</b> | <b>735,876</b>                                        | <b>1,088</b>                                      | <b>736,964</b>                                      |

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1<sup>st</sup> January, 2019. The weighted-average incremental borrowing rate applied is 3.65%.

|                                                                                  | 1 <sup>st</sup> January, 2019 |
|----------------------------------------------------------------------------------|-------------------------------|
|                                                                                  | HK\$ Mn                       |
| Operating lease commitment at 31 <sup>st</sup> December, 2018                    | 1,085                         |
| Less: Commitments relating to leases not yet commenced                           | (85)                          |
| Less: Commitments relating to leases exempt from capitalisation:                 |                               |
| - Leases with less than 12 months of lease term at transition                    | (58)                          |
| - Leases of low-value assets                                                     | (2)                           |
| Add: Extension options or termination options reasonably certain to be exercised | 321                           |
|                                                                                  | 1,261                         |
| Less: Total future interest expenses                                             | (167)                         |
| Lease liabilities recognised at 1 <sup>st</sup> January, 2019                    | 1,094                         |

### 3. Interest Income

|                                                                        | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Loans, deposits with banks and financial institutions, and trade bills | 12,218                                    | 10,262                                    |
| Investment securities                                                  |                                           |                                           |
| - at amortised cost or FVOCI                                           | 2,095                                     | 1,660                                     |
| - designated at FVTPL                                                  | 64                                        | 53                                        |
| - mandatory at FVTPL                                                   | 133                                       | 119                                       |
| Trading assets                                                         | 46                                        | 89                                        |
|                                                                        | <u>14,556</u>                             | <u>12,183</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 HK\$14,259 million (six months ended 30<sup>th</sup> June, 2018: HK\$11,943 million) interest income, before hedging effect, for financial assets that are not recognised at fair value through profit or loss.

### 4. Interest Expense

|                                                                       | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|-----------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Customer deposits, deposits of banks and other financial institutions |                                           |                                           |
| - at amortised cost                                                   | 5,870                                     | 5,159                                     |
| - designated at FVTPL                                                 | 32                                        | 18                                        |
| Certificates of deposit and debt securities issued                    |                                           |                                           |
| - at amortised cost                                                   | 659                                       | 323                                       |
| - designated at FVTPL                                                 | 205                                       | 129                                       |
| Subordinated notes carried at amortised cost                          | 361                                       | 300                                       |
| Lease liabilities                                                     | 21                                        | -                                         |
| Other borrowings                                                      | 2                                         | 4                                         |
|                                                                       | <u>7,150</u>                              | <u>5,933</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 HK\$6,881 million (six months ended 30<sup>th</sup> June, 2018: HK\$5,801 million) interest expense, before hedging effect, for financial liabilities that are not recognised at fair value through profit or loss.

## 5. Fee and Commission Income

Fee and commission income is disaggregated by services:

|                                                                                                                                                                               | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Credit cards                                                                                                                                                                  | 598                                       | 525                                       |
| Loans, overdrafts and guarantees                                                                                                                                              | 364                                       | 343                                       |
| Other retail banking services                                                                                                                                                 | 182                                       | 194                                       |
| Trade finance                                                                                                                                                                 | 169                                       | 164                                       |
| Trust and other fiduciary activities                                                                                                                                          | 146                                       | 152                                       |
| Securities and brokerage                                                                                                                                                      | 101                                       | 179                                       |
| Investment products                                                                                                                                                           | 56                                        | 78                                        |
| Sale of third party insurance policies                                                                                                                                        | 33                                        | 29                                        |
| Financial consultancy                                                                                                                                                         | 19                                        | 43                                        |
| Others                                                                                                                                                                        | 227                                       | 228                                       |
| Total fee and commission income                                                                                                                                               | <u>1,895</u>                              | <u>1,935</u>                              |
| of which:                                                                                                                                                                     |                                           |                                           |
| 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 | 1,379                                     | 1,379                                     |
| Fee income                                                                                                                                                                    | <u>1,895</u>                              | <u>1,935</u>                              |
| Fee expenses                                                                                                                                                                  | <u>(516)</u>                              | <u>(556)</u>                              |

## 6. Net Trading Profits

|                                                           | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|-----------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Profit on dealing in foreign currencies and funding swaps | 163                                       | 310                                       |
| Profit on trading securities                              | 183                                       | 83                                        |
| Net gain on derivatives                                   | 49                                        | 134                                       |
| Dividend income from trading equity securities            | 21                                        | 29                                        |
|                                                           | <u>416</u>                                | <u>556</u>                                |

## 7. Net Result from Other Financial Instruments at Fair Value through Profit or Loss

|                                                                                                                               | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|-------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Net loss from financial instruments designated at FVTPL                                                                       | (44)                                      | (28)                                      |
| Net profit/(loss) from financial instruments mandatorily measured at FVTPL (other than those included in net trading profits) | <u>173</u>                                | <u>(114)</u>                              |
|                                                                                                                               | <u>129</u>                                | <u>(142)</u>                              |

## 8. Net Hedging Profit

|                                                                     | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|---------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Fair value hedges                                                   |                                           |                                           |
| - Net profit/(loss) on hedged items attributable to the hedged risk | 1,649                                     | (394)                                     |
| - Net (loss)/profit on hedging instruments                          | (1,632)                                   | 410                                       |
|                                                                     | <u>17</u>                                 | <u>16</u>                                 |

There was insignificant ineffectiveness recognised in the Group's income statement arising from cash flow hedge for the six months ended 30<sup>th</sup> June, 2019 and 30<sup>th</sup> June, 2018.

## 9. Net Insurance Revenue

|                                                                        | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| (a) Net insurance revenue                                              |                                           |                                           |
| Net interest income                                                    | 312                                       | 252                                       |
| Net trading (loss)/profits                                             | (43)                                      | 33                                        |
| Net profits/(loss) from other financial instruments mandatory at FVTPL | 515                                       | (139)                                     |
| Net insurance premium                                                  | (b) <u>3,686</u>                          | <u>2,833</u>                              |
|                                                                        | 4,470                                     | 2,979                                     |
| Net insurance claims and expenses                                      | (c) <u>(3,935)</u>                        | <u>(2,727)</u>                            |
|                                                                        | 535                                       | 252                                       |
| Operating expenses                                                     | (2)                                       | (1)                                       |
| (Charge for)/Write back of impairment loss on financial instruments    | (3)                                       | 3                                         |
| Net profit on sale of debt investment securities at FVOCI              | <u>44</u>                                 | <u>10</u>                                 |
|                                                                        | <u>574</u>                                | <u>264</u>                                |
| (b) Net insurance premium                                              |                                           |                                           |
| Gross insurance premium income ( <i>Note</i> )                         | 3,716                                     | 2,863                                     |
| Reinsurer's share of gross insurance premium income                    | <u>(30)</u>                               | <u>(30)</u>                               |
|                                                                        | <u>3,686</u>                              | <u>2,833</u>                              |
| (c) Net insurance claims and expenses                                  |                                           |                                           |
| Claims, benefits and surrenders paid                                   | 1,797                                     | 1,771                                     |
| Movement in provisions                                                 | <u>2,060</u>                              | <u>903</u>                                |
|                                                                        | <u>3,857</u>                              | <u>2,674</u>                              |
| Reinsurers' share of claim, benefits and surrenders paid               | (251)                                     | (342)                                     |
| Reinsurers' share of movement in provisions                            | <u>249</u>                                | <u>315</u>                                |
|                                                                        | <u>(2)</u>                                | <u>(27)</u>                               |
|                                                                        | 3,855                                     | 2,647                                     |
| Net insurance commission expenses                                      | <u>80</u>                                 | <u>80</u>                                 |
|                                                                        | <u>3,935</u>                              | <u>2,727</u>                              |

*Note: Gross insurance premium income represents gross premiums received and receivable in respect of long-term business and general insurance business, net of discounts and returns.*

## 10. Other Operating Income

|                                                          | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|----------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Dividend income from equity securities measured at FVOCI | 4                                         | 8                                         |
| Rental from safe deposit boxes                           | 59                                        | 54                                        |
| Rental income on properties                              | 88                                        | 89                                        |
| Others                                                   | 38                                        | 69                                        |
|                                                          | <u>189</u>                                | <u>220</u>                                |

## 11. Operating Expenses

|                                                                                | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|--------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Contributions to defined contribution plan                                     |                                           |                                           |
| - Hong Kong                                                                    | 84                                        | 72                                        |
| - Outside Hong Kong                                                            | 119                                       | 119                                       |
| Equity-settled share-based payment expenses                                    | 12                                        | 17                                        |
| Salaries and other staff costs                                                 | 2,433                                     | 2,310                                     |
| Total staff costs                                                              | <u>2,648</u>                              | <u>2,518</u>                              |
| Premises and equipment expenses excluding depreciation                         |                                           |                                           |
| - Rental                                                                       | -                                         | 266                                       |
| - Expenses relating to short-term leases                                       | 47                                        | -                                         |
| - Variable lease payments not included in the measurement of lease liabilities | 3                                         | -                                         |
| - Maintenance, repairs and others                                              | 293                                       | 303                                       |
| Total premises and equipment expenses excluding depreciation                   | <u>343</u>                                | <u>569</u>                                |
| Depreciation on fixed assets                                                   | 263                                       | 240                                       |
| Depreciation on right-of-use assets                                            | 186                                       | -                                         |
| Amortisation of intangible assets                                              | 7                                         | 7                                         |
| Other operating expenses                                                       |                                           |                                           |
| - Internet platform charges                                                    | 476                                       | 33                                        |
| - Legal and professional fees                                                  | 219                                       | 180                                       |
| - Advertising expenses                                                         | 129                                       | 86                                        |
| - Communications, stationery and printing                                      | 128                                       | 127                                       |
| - Card related expenses                                                        | 96                                        | 68                                        |
| - Stamp duty, withholding taxes and value added taxes                          | 70                                        | 70                                        |
| - Insurance expenses                                                           | 64                                        | 54                                        |
| - Business promotions and business travel                                      | 48                                        | 58                                        |
| - Donations                                                                    | 8                                         | 9                                         |
| - Membership fees                                                              | 7                                         | 8                                         |
| - Bank charges                                                                 | 7                                         | 5                                         |
| - Bank licence                                                                 | 2                                         | 2                                         |
| - Others                                                                       | 217                                       | 152                                       |
| Total other operating expenses                                                 | <u>1,471</u>                              | <u>852</u>                                |
| Total operating expenses                                                       | <u>4,918</u>                              | <u>4,186</u>                              |

**12. Impairment Losses on Financial Instruments**

|                                 | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|---------------------------------|-------------------------------------------|-------------------------------------------|
| Loans and advances to customers | 5,015                                     | 298                                       |
| Others                          | 48                                        | (16)                                      |
|                                 | <u>5,063</u>                              | <u>282</u>                                |

**13. Net Profit on Sale of Financial Assets at FVOCI**

|                                                  | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|--------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Net profit on sale of debt securities            |                                           |                                           |
| - Net revaluation gain transferred from reserves | 66                                        | 23                                        |
| - Profit arising in the period                   | 38                                        | 26                                        |
|                                                  | <u>104</u>                                | <u>49</u>                                 |

**14. Net Profit on Sale of Assets Held for Sale**

|                                    | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|------------------------------------|-------------------------------------------|-------------------------------------------|
| Net loss on sale of disposal group | (26)                                      | -                                         |
| Net profit on sale of properties   | 108                                       | 10                                        |
|                                    | <u>82</u>                                 | <u>10</u>                                 |

**15. Net Loss on Disposal of Fixed Assets**

|                                                                          | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|--------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Net loss on disposal of investment properties                            | -                                         | (1)                                       |
| Net loss on disposal of bank premises, furniture, fixtures and equipment | (6)                                       | (9)                                       |
|                                                                          | <u>(6)</u>                                | <u>(10)</u>                               |

## 16. Income Tax

Taxation in the consolidated income statement represents:

|                                                   | 6 months<br>ended<br>30/6/2019<br>HK\$ Mn | 6 months<br>ended<br>30/6/2018<br>HK\$ Mn |
|---------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Current tax – Hong Kong                           |                                           |                                           |
| Tax for the year                                  | 518                                       | 432                                       |
| (Over)/Under-provision in respect of prior years  | (147)                                     | 3                                         |
|                                                   | <u>371</u>                                | <u>435</u>                                |
| Current tax – outside Hong Kong                   |                                           |                                           |
| Tax for the year                                  | 346                                       | 248                                       |
| (Over)/Under-provision in respect of prior years  | (68)                                      | 207                                       |
|                                                   | <u>278</u>                                | <u>455</u>                                |
| Deferred tax                                      |                                           |                                           |
| Origination and reversal of temporary differences | (1,051)                                   | (128)                                     |
|                                                   | <u>(402)</u>                              | <u>762</u>                                |

The provision for Hong Kong profits tax is calculated at 16.5% (six months ended 30<sup>th</sup> June, 2018: 16.5%) of the estimated assessable profits for the six months ended 30<sup>th</sup> June, 2019.

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

## 17. Cash and Balances with Banks and Other Financial Institutions

|                                                      | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|------------------------------------------------------|----------------------|-----------------------|
| Cash in hand                                         | 1,307                | 1,284                 |
| Balances with central banks                          | 37,683               | 36,854                |
| Balances with banks and other financial institutions | <u>13,841</u>        | <u>9,973</u>          |
|                                                      | 52,831               | 48,111                |
| Less: Impairment allowances                          | (8)                  | (5)                   |
| - Stage 1                                            | (8)                  | (5)                   |
| - Stage 2                                            | -                    | -                     |
| - Stage 3                                            | -                    | -                     |
|                                                      | <u>52,823</u>        | <u>48,106</u>         |

## 18. Placements with and Advances to Banks and Other Financial Institutions

|                                                                        | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|------------------------------------------------------------------------|----------------------|-----------------------|
| Placements with and advances to banks and other financial institutions |                      |                       |
| Maturing                                                               |                      |                       |
| - within one month                                                     | 60,712               | 43,962                |
| - after one month but within one year                                  | 8,860                | 16,343                |
| - after one year                                                       | 156                  | 78                    |
|                                                                        | 69,728               | 60,383                |
| Less: Impairment allowances                                            | (8)                  | (10)                  |
| - Stage 1                                                              | (8)                  | (10)                  |
| - Stage 2                                                              | -                    | -                     |
| - Stage 3                                                              | -                    | -                     |
|                                                                        | 69,720               | 60,373                |
| Of which:                                                              |                      |                       |
| Placements with and advances to central banks                          | -                    | -                     |

## 19. Trade Bills

|                             | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|-----------------------------|----------------------|-----------------------|
| At amortised cost           | 1,031                | 2,886                 |
| Less: Impairment allowances | -                    | (4)                   |
| - Stage 1                   | -                    | (3)                   |
| - Stage 2                   | -                    | -                     |
| - Stage 3                   | -                    | (1)                   |
|                             | 1,031                | 2,882                 |
| At FVOCI                    | 11,795               | 11,764                |
|                             | 12,826               | 14,646                |

## 20. Trading Assets

|                                                | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|------------------------------------------------|----------------------|-----------------------|
| Treasury bills (including Exchange Fund Bills) | 905                  | 270                   |
| Certificates of deposits held                  | 373                  | -                     |
| Debt securities                                | 1,566                | 1,861                 |
| Equity securities                              | 1,287                | 1,352                 |
|                                                | 4,131                | 3,483                 |

## 21. Loans and Advances to Customers

### (a) Loans and advances to customers

|                                                   | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|---------------------------------------------------|----------------------|-----------------------|
| Loans and advances to customers at amortised cost | 511,281              | 500,631               |
| Less: Impairment allowances                       | (5,182)              | (2,347)               |
| - Stage 1                                         | (387)                | (431)                 |
| - Stage 2                                         | (849)                | (855)                 |
| - Stage 3                                         | (3,946)              | (1,061)               |
|                                                   | <u>506,099</u>       | <u>498,284</u>        |

### (b) Loans and advances to customers - by industry sectors

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

|                                                                                                                                 | 30/6/2019                 |                                                | 31/12/2018                |                                                |
|---------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------------------------------------------|---------------------------|------------------------------------------------|
|                                                                                                                                 | Gross advances<br>HK\$ Mn | % of gross advances covered by collateral<br>% | Gross advances<br>HK\$ Mn | % of gross advances covered by collateral<br>% |
| Loans for use in Hong Kong                                                                                                      |                           |                                                |                           |                                                |
| Industrial, commercial and financial                                                                                            |                           |                                                |                           |                                                |
| - Property development                                                                                                          | 29,615                    | 58.61                                          | 26,427                    | 59.34                                          |
| - Property investment                                                                                                           | 43,926                    | 89.31                                          | 40,218                    | 90.48                                          |
| - Financial concerns                                                                                                            | 14,266                    | 71.59                                          | 14,944                    | 69.20                                          |
| - Stockbrokers                                                                                                                  | 1,335                     | 68.98                                          | 1,928                     | 67.61                                          |
| - Wholesale and retail trade                                                                                                    | 5,793                     | 47.86                                          | 6,839                     | 53.30                                          |
| - Manufacturing                                                                                                                 | 2,948                     | 55.41                                          | 1,903                     | 51.42                                          |
| - Transport and transport equipment                                                                                             | 4,352                     | 67.30                                          | 5,111                     | 64.32                                          |
| - Recreational activities                                                                                                       | 36                        | 86.88                                          | 35                        | 91.59                                          |
| - Information technology                                                                                                        | 658                       | 2.03                                           | 668                       | 3.38                                           |
| - Others                                                                                                                        | 23,952                    | 72.56                                          | 20,196                    | 72.96                                          |
| - Sub-total                                                                                                                     | <u>126,881</u>            | 72.89                                          | <u>118,269</u>            | 73.07                                          |
| Individuals                                                                                                                     |                           |                                                |                           |                                                |
| - Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 1,062                     | 100.00                                         | 1,048                     | 100.00                                         |
| - Loans for the purchase of other residential properties                                                                        | 56,562                    | 100.00                                         | 55,292                    | 100.00                                         |
| - Credit card advances                                                                                                          | 4,485                     | 0.00                                           | 4,496                     | 0.00                                           |
| - Others                                                                                                                        | 43,098                    | 88.63                                          | 39,909                    | 88.91                                          |
| - Sub-total                                                                                                                     | <u>105,207</u>            | 91.08                                          | <u>100,745</u>            | 91.14                                          |
| Total loans for use in Hong Kong                                                                                                | 232,088                   | 81.13                                          | 219,014                   | 81.38                                          |
| Trade finance                                                                                                                   | 3,352                     | 56.83                                          | 3,733                     | 56.18                                          |
| Loans for use outside Hong Kong*                                                                                                | <u>275,841</u>            | 43.03                                          | <u>277,884</u>            | 46.84                                          |
| Total advances to customers                                                                                                     | <u>511,281</u>            | 60.42                                          | <u>500,631</u>            | 62.02                                          |

\* Loans for use outside Hong Kong include the following loans for use in Mainland China.

|                                                          | 30/6/2019                 |                                                | 31/12/2018<br>Restated    |                                                |
|----------------------------------------------------------|---------------------------|------------------------------------------------|---------------------------|------------------------------------------------|
|                                                          | Gross advances<br>HK\$ Mn | % of gross advances covered by collateral<br>% | Gross advances<br>HK\$ Mn | % of gross advances covered by collateral<br>% |
| Loans for use in PRC                                     |                           |                                                |                           |                                                |
| Industrial, commercial and financial                     |                           |                                                |                           |                                                |
| - Property development                                   | 43,246                    | 41.63                                          | 45,304                    | 49.98                                          |
| - Property investment                                    | 21,109                    | 93.91                                          | 24,020                    | 95.23                                          |
| - Financial concerns                                     | 28,873                    | 5.91                                           | 30,924                    | 5.70                                           |
| - Wholesale and retail trade                             | 8,894                     | 44.22                                          | 9,057                     | 55.60                                          |
| - Manufacturing                                          | 6,798                     | 25.09                                          | 6,673                     | 26.08                                          |
| - Transport and transport equipment                      | 2,601                     | 70.35                                          | 2,911                     | 82.36                                          |
| - Recreational activities                                | 702                       | 9.14                                           | 1,074                     | 78.64                                          |
| - Information technology                                 | 1,849                     | 1.50                                           | 3,685                     | 0.60                                           |
| - Others                                                 | 17,440                    | 31.17                                          | 19,063                    | 33.89                                          |
| - Sub-total                                              | <u>131,512</u>            | 39.94                                          | <u>142,711</u>            | 44.69                                          |
| Individuals                                              |                           |                                                |                           |                                                |
| - Loans for the purchase of other residential properties | 13,684                    | 99.97                                          | 13,879                    | 99.97                                          |
| - Credit card advances                                   | 9,444                     | 0.00                                           | 9,405                     | 0.00                                           |
| - Others                                                 | 25,041                    | 1.21                                           | 17,093                    | 2.19                                           |
| - Sub-total                                              | <u>48,169</u>             | 29.03                                          | <u>40,377</u>             | 35.29                                          |
| Total loans for use in PRC                               | <u>179,681</u>            | 37.02                                          | <u>183,088</u>            | 42.62                                          |

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

|                                                    | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|----------------------------------------------------|----------------------|-----------------------|
| (i) Property development                           |                      |                       |
| a. Individually impaired loans                     | 2,742                | 749                   |
| b. Specific provisions                             | 1,436                | -                     |
| c. Collective provisions                           | 284                  | 249                   |
| d. New provision charged to income statement       | 1,523                | 188                   |
| e. Written off                                     | 581                  | 50                    |
| (ii) Property investment                           |                      |                       |
| a. Individually impaired loans                     | 1,949                | 150                   |
| b. Specific provisions                             | 919                  | 94                    |
| c. Collective provisions                           | 392                  | 314                   |
| d. New provision charged to income statement       | 1,045                | 310                   |
| e. Written off                                     | 703                  | 264                   |
| (iii) Loans for purchase of residential properties |                      |                       |
| a. Individually impaired loans                     | 267                  | 278                   |
| b. Specific provisions                             | 10                   | 8                     |
| c. Collective provisions                           | 107                  | 201                   |
| d. New provision charged to income statement       | 48                   | 158                   |
| e. Written off                                     | 2                    | 8                     |

The specific provisions represent lifetime expected credit loss provisions for credited impaired exposures and the collective provisions represent the 12-month and lifetime expected credit loss provisions for non-credit impaired exposures.

(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. The analysis of impairment provisions follow the terminology used by the HKMA. The specific provisions represent lifetime expected credit loss provisions for credit impaired exposures and the collective provisions represent the 12-month and lifetime expected credit loss provisions for non-credit impaired exposures.

| 30/6/2019                                                                    |                                   |                                                 |                                      |                        |                          |
|------------------------------------------------------------------------------|-----------------------------------|-------------------------------------------------|--------------------------------------|------------------------|--------------------------|
|                                                                              | Total<br>advances to<br>customers | Advances<br>overdue for<br>over three<br>months | Impaired<br>advances to<br>customers | Specific<br>provisions | Collective<br>provisions |
|                                                                              | HK\$ Mn                           | HK\$ Mn                                         | HK\$ Mn                              | HK\$ Mn                | HK\$ Mn                  |
| Hong Kong                                                                    | 241,678                           | 343                                             | 2,445                                | 1,400                  | 255                      |
| Mainland China                                                               | 198,151                           | 2,354                                           | 5,152                                | 2,403                  | 892                      |
| Other Asian Countries and<br>Regions                                         | 26,898                            | 138                                             | 406                                  | 143                    | 69                       |
| Others                                                                       | 44,554                            | -                                               | 332                                  | -                      | 20                       |
| Total                                                                        | <u>511,281</u>                    | <u>2,835</u>                                    | <u>8,335</u>                         | <u>3,946</u>           | <u>1,236</u>             |
| % of total advances to<br>customers                                          |                                   |                                                 | <u>1.63%</u>                         |                        |                          |
| Market value of collateral held<br>against impaired advances<br>to customers |                                   |                                                 | <u>6,640</u>                         |                        |                          |
| 31/12/2018                                                                   |                                   |                                                 |                                      |                        |                          |
|                                                                              | Total<br>advances to<br>customers | Advances<br>overdue for<br>over three<br>months | Impaired<br>advances to<br>customers | Specific<br>provisions | Collective<br>provisions |
|                                                                              | HK\$ Mn                           | HK\$ Mn                                         | HK\$ Mn                              | HK\$ Mn                | HK\$ Mn                  |
| Hong Kong                                                                    | 225,656                           | 367                                             | 559                                  | 224                    | 260                      |
| Mainland China                                                               | 203,377                           | 2,405                                           | 2,515                                | 776                    | 871                      |
| Other Asian Countries and<br>Regions                                         | 27,634                            | 121                                             | 396                                  | 61                     | 117                      |
| Others                                                                       | 43,964                            | -                                               | 21                                   | -                      | 38                       |
| Total                                                                        | <u>500,631</u>                    | <u>2,893</u>                                    | <u>3,491</u>                         | <u>1,061</u>           | <u>1,286</u>             |
| % of total advances to<br>customers                                          |                                   |                                                 | <u>0.70%</u>                         |                        |                          |
| Market value of collateral held<br>against impaired advances<br>to customers |                                   |                                                 | <u>2,414</u>                         |                        |                          |

Impaired loans and advances are individually assessed loans with objective evidence of impairment on an individual basis. The above information by countries or geographical areas is derived according to the location of the counterparties after taking into account any transfer of risk.

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.

## 22. Investment Securities

|                                                | 30/6/2019                     |                     |                   |                            |                |
|------------------------------------------------|-------------------------------|---------------------|-------------------|----------------------------|----------------|
|                                                | Mandatorily measured at FVTPL | Designated at FVTPL | Measured at FVOCI | Measured at amortised cost | Total          |
|                                                | HK\$ Mn                       | HK\$ Mn             | HK\$ Mn           | HK\$ Mn                    | HK\$ Mn        |
| Treasury bills (including Exchange Fund Bills) | -                             | -                   | 30,901            | 2,812                      | 33,713         |
| Certificates of deposits held                  | -                             | -                   | 1,065             | 933                        | 1,998          |
| Debt securities                                | 9,712                         | 1,303               | 91,715            | 15,344                     | 118,074        |
| Equity securities                              | 1,805                         | -                   | 1,105             | -                          | 2,910          |
| Investment funds                               | 517                           | -                   | -                 | -                          | 517            |
|                                                | <u>12,034</u>                 | <u>1,303</u>        | <u>124,786</u>    | <u>19,089</u>              | <u>157,212</u> |

  

|                                                | 31/12/2018                    |                     |                   |                            |                |
|------------------------------------------------|-------------------------------|---------------------|-------------------|----------------------------|----------------|
|                                                | Mandatorily measured at FVTPL | Designated at FVTPL | Measured at FVOCI | Measured at amortised cost | Total          |
|                                                | HK\$ Mn                       | HK\$ Mn             | HK\$ Mn           | HK\$ Mn                    | HK\$ Mn        |
| Treasury bills (including Exchange Fund Bills) | -                             | -                   | 26,594            | 1,915                      | 28,509         |
| Certificates of deposits held                  | -                             | -                   | 1,191             | 1,109                      | 2,300          |
| Debt securities                                | 10,663                        | 1,630               | 81,574            | 15,997                     | 109,864        |
| Equity securities                              | 2,513                         | -                   | 688               | -                          | 3,201          |
| Investment funds                               | 855                           | -                   | -                 | -                          | 855            |
|                                                | <u>14,031</u>                 | <u>1,630</u>        | <u>110,047</u>    | <u>19,021</u>              | <u>144,729</u> |

Debt securities were designated as at FVTPL on initial recognition when the Group held derivatives for managing specific risk of the debt securities, and the designation therefore eliminated or significantly reduced an accounting mismatch that would otherwise arise.

### Equity securities designated at FVOCI

The Group designated certain equity securities as shown in the following table at FVOCI. The FVOCI designation was made because the investments are expected to be held for long-term strategic purposes.

|                                                              | 30/6/2019               |                            | 31/12/2018               |                            |
|--------------------------------------------------------------|-------------------------|----------------------------|--------------------------|----------------------------|
|                                                              | Fair value at 30/6/2019 | Dividend income recognised | Fair value at 31/12/2018 | Dividend income recognised |
|                                                              | HK\$ Mn                 | HK\$ Mn                    | HK\$ Mn                  | HK\$ Mn                    |
| Aberdeen Restaurant Enterprises Limited                      | 2                       | -                          | 2                        | -                          |
| EPS Company (Hong Kong) Limited                              | 64                      | 4                          | 47                       | 7                          |
| Joint Electronic Teller Services Ltd.                        | 17                      | -                          | 18                       | 2                          |
| Nova Credit Limited                                          | 11                      | -                          | 11                       | -                          |
| OTC Clearing Hong Kong Limited                               | 12                      | -                          | 14                       | -                          |
| TransUnion Limited                                           | 93                      | -                          | 70                       | 11                         |
| China International Payment Service Corporation              | 35                      | -                          | 35                       | -                          |
| China UnionPay Co., Ltd.                                     | 859                     | -                          | 481                      | 2                          |
| Euroclear Plc                                                | 10                      | -                          | 8                        | 1                          |
| Society For World-Wide Interbank Financial Telecommunication | 2                       | -                          | 2                        | -                          |
|                                                              | <u>1,105</u>            | <u>4</u>                   | <u>688</u>               | <u>23</u>                  |

## 23. Fixed Assets

30/6/2019

|                                                               | Investment<br>properties<br>HK\$ Mn | Bank<br>premises<br>HK\$ Mn | Furniture,<br>fixtures and<br>equipment<br>HK\$ Mn | Sub-total<br>HK\$ Mn | Right-of-<br>use assets<br>– Bank<br>premises<br>HK\$ Mn | Right-of-<br>use assets<br>– Furniture,<br>fixtures and<br>equipment<br>HK\$ Mn | Sub-total<br>HK\$ Mn | Total<br>HK\$ Mn |
|---------------------------------------------------------------|-------------------------------------|-----------------------------|----------------------------------------------------|----------------------|----------------------------------------------------------|---------------------------------------------------------------------------------|----------------------|------------------|
| Cost or valuation                                             |                                     |                             |                                                    |                      |                                                          |                                                                                 |                      |                  |
| At 1 <sup>st</sup> January, 2019                              | 5,249                               | 8,237                       | 5,523                                              | 13,760               | -                                                        | -                                                                               | -                    | 19,009           |
| Impact of adopting<br>HKFRS 16                                | -                                   | -                           | -                                                  | -                    | 1,099                                                    | 9                                                                               | 1,108                | 1,108            |
| Restated balance as<br>at 1 <sup>st</sup> January,<br>2019    | 5,249                               | 8,237                       | 5,523                                              | 13,760               | 1,099                                                    | 9                                                                               | 1,108                | 20,117           |
| Additions                                                     | -                                   | 28                          | 216                                                | 244                  | 160                                                      | 3                                                                               | 163                  | 407              |
| Revaluation surplus                                           | 18                                  | -                           | -                                                  | -                    | -                                                        | -                                                                               | -                    | 18               |
| Disposals                                                     | -                                   | (23)                        | (31)                                               | (54)                 | -                                                        | -                                                                               | -                    | (54)             |
| Remeasurement                                                 | -                                   | -                           | -                                                  | -                    | (1)                                                      | -                                                                               | (1)                  | (1)              |
| Transfer to asset<br>classified as<br>assets held for<br>sale | -                                   | (6)                         | -                                                  | (6)                  | -                                                        | -                                                                               | -                    | (6)              |
| Exchange<br>adjustments                                       | (1)                                 | -                           | (2)                                                | (2)                  | (2)                                                      | -                                                                               | (2)                  | (5)              |
| At 30th June, 2019                                            | 5,266                               | 8,236                       | 5,706                                              | 13,942               | 1,256                                                    | 12                                                                              | 1,268                | 20,476           |
| Accumulated<br>depreciation and<br>amortisation               |                                     |                             |                                                    |                      |                                                          |                                                                                 |                      |                  |
| At 1st January, 2019                                          | -                                   | 1,933                       | 3,911                                              | 5,844                | -                                                        | -                                                                               | -                    | 5,844            |
| Charge for the period                                         | -                                   | 78                          | 185                                                | 263                  | 184                                                      | 2                                                                               | 186                  | 449              |
| Written off on<br>disposal                                    | -                                   | (7)                         | (25)                                               | (32)                 | -                                                        | -                                                                               | -                    | (32)             |
| Transfer to asset<br>classified as<br>assets held for<br>sale | -                                   | (2)                         | -                                                  | (2)                  | -                                                        | -                                                                               | -                    | (2)              |
| Exchange<br>adjustments                                       | -                                   | (2)                         | (2)                                                | (4)                  | (1)                                                      | -                                                                               | (1)                  | (5)              |
| At 30th June, 2019                                            | -                                   | 2,000                       | 4,069                                              | 6,069                | 183                                                      | 2                                                                               | 185                  | 6,254            |
| Net book value at<br>30th June, 2019                          | 5,266                               | 6,236                       | 1,637                                              | 7,873                | 1,073                                                    | 10                                                                              | 1,083                | 14,222           |
| Net book value at<br>31st December, 2018                      | 5,249                               | 6,304                       | 1,612                                              | 7,916                | -                                                        | -                                                                               | -                    | 13,165           |
| The gross amounts of<br>the above assets are<br>stated:       |                                     |                             |                                                    |                      |                                                          |                                                                                 |                      |                  |
| At cost                                                       | -                                   | 766                         | 5,706                                              | 6,472                | 1,256                                                    | 12                                                                              | 1,268                | 7,740            |
| At Directors' valuation<br>- 1989                             | -                                   | 7,470                       | -                                                  | 7,470                | -                                                        | -                                                                               | -                    | 7,470            |
| At professional<br>valuation<br>- 2019                        | 5,266                               | -                           | -                                                  | -                    | -                                                        | -                                                                               | -                    | 5,266            |
|                                                               | 5,266                               | 8,236                       | 5,706                                              | 13,942               | 1,256                                                    | 12                                                                              | 1,268                | 20,476           |

## 24. Other Assets

|                                        | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|----------------------------------------|----------------------|-----------------------|
| Accrued interest                       | 3,459                | 3,466                 |
| Customer liabilities under acceptances | 25,257               | 21,747                |
| Other accounts*                        | 11,618               | 9,294                 |
| Less: Impairment allowances            | (410)                | (291)                 |
| - Stage 1                              | (38)                 | (27)                  |
| - Stage 2                              | (9)                  | (6)                   |
| - Stage 3                              | (363)                | (258)                 |
|                                        | <u>39,924</u>        | <u>34,216</u>         |
| Assets held for sale (Note 43)         | 507                  | 688                   |
|                                        | <u>40,431</u>        | <u>34,904</u>         |

\* Include nil contract assets (31/12/2018: nil) from contracts with customers under HKFRS 15.

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

|                                                                 | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|-----------------------------------------------------------------|----------------------|-----------------------|
| Deposits and balances of banks and other financial institutions | 3,535                | 1,335                 |
| Certificates of deposits issued                                 | 20,275               | 9,462                 |
| Debt securities issued                                          | 109                  | 407                   |
|                                                                 | <u>23,919</u>        | <u>11,204</u>         |

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.

|                                                            | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|------------------------------------------------------------|----------------------|-----------------------|
| Balance at 1 <sup>st</sup> January                         | (3)                  | (6)                   |
| Recognised in other comprehensive income during the period | -                    | 3                     |
| Balance at 30 <sup>th</sup> June/31 <sup>st</sup> December | <u>(3)</u>           | <u>(3)</u>            |

None of the liabilities designated as at FVTPL was derecognized during the period ended 30<sup>th</sup> June, 2019 and there was no transfer of cumulative gain or loss within equity during the period.

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 30 June 2019 was HK\$100 million lower than the contractual amount due at maturity (31/12/2018: HK\$57 million lower).

## 26. Trading Liabilities

|             | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|-------------|----------------------|-----------------------|
| Shares sold | 38                   | -                     |

## 27. Other Liabilities

|                                        | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|----------------------------------------|----------------------|-----------------------|
| Accrued interest payable               | 3,520                | 3,279                 |
| Acceptance draft payable               | 25,257               | 21,747                |
| Impairment allowances                  | 100                  | 111                   |
| - Financial guarantee contracts issued | 14                   | 15                    |
| - Loan commitments issued              | 86                   | 96                    |
| Liabilities held for sale (Note 43)    | 3                    | 7                     |
| Lease liabilities                      | 1,089                | -                     |
| Other accounts*                        | 32,015               | 26,300                |
|                                        | 61,984               | 51,444                |

\* Include contract liabilities of HK\$599 million (31/12/2018: HK\$633 million) from contracts with customers under HKFRS 15.

## 28. Loan Capital

|                                                                                      | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|--------------------------------------------------------------------------------------|----------------------|-----------------------|
| Subordinated notes, at amortised cost with fair value hedge adjustments              |                      |                       |
| USD600 million fixed rate subordinated notes due 16 <sup>th</sup> July, 2020 (1)     | 4,730                | 4,710                 |
| USD500 million fixed rate subordinated notes due 20 <sup>th</sup> November, 2024 (2) | 3,897                | 3,878                 |
| USD500 million fixed rate subordinated notes due 3 <sup>rd</sup> November, 2026 (3)  | 3,862                | 3,770                 |
| Subordinated notes at amortised cost                                                 |                      |                       |
| RMB1,500 million fixed rate subordinated notes due 25 <sup>th</sup> April, 2029 (4)  | 1,704                | -                     |
|                                                                                      | 14,193               | 12,358                |

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities during the period/year ended 30<sup>th</sup> June, 2019 and 31<sup>st</sup> December, 2018.

- (1) Two tranches of loan capital of face value totalling HK\$4,688 million (USD600 million) and carrying amount totalling HK\$4,730 million (31/12/2018: HK\$4,710 million) were issued on 16<sup>th</sup> July, 2010 (USD450 million) and on 23<sup>rd</sup> July, 2010 (USD150 million) by the Bank. These subordinated notes carrying a coupon rate of 6.125% qualifying as Tier 2 capital are listed on the Singapore Exchange and will mature on 16<sup>th</sup> July, 2020. The notes are under fair value hedge accounting and hedge ineffectiveness of HK\$3 million loss was recorded in the first half of 2019 (first half 2018: HK\$3 million loss).

- (2) Loan capital of face value of HK\$3,907 million (USD500 million) and carrying amount of HK\$3,897 million (31/12/2018: HK\$3,878 million) represents 4.25% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 20<sup>th</sup> November, 2014 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 20<sup>th</sup> November, 2024. The notes are under fair value hedge accounting and hedge ineffectiveness of HK\$0.05 million profit was recorded in first half of 2019 (first half 2018: HK\$1 million loss).
- (3) Loan capital of face value of HK\$3,907 million (USD500 million) and carrying amount of HK\$3,862 million (31/12/2018: HK\$3,770 million) represents 4% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 3<sup>rd</sup> November, 2016 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 3<sup>rd</sup> November, 2026. The notes are under fair value hedge accounting and hedge ineffectiveness of HK\$0.7 million loss was recorded in first half of 2019 (first half 2018: HK\$2 million loss).
- (4) Loan capital of face value of HK\$1,707 million (RMB1,500 million) and carrying amount of HK\$1,704 million represents 4.94% subordinated notes issued on 25<sup>th</sup> April, 2019 by the Bank's subsidiary, The Bank of East Asia (China) Limited. The notes will mature on 25<sup>th</sup> April, 2029.

## 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 eight reportable segments.

Personal banking includes branch operations, personal internet banking, consumer finance, property loans and credit card business in Hong Kong.

Corporate banking includes corporate lending and loan syndication, asset based lending, commercial lending and securities lending in Hong Kong.

Treasury markets include treasury operations and securities dealing in Hong Kong.

Wealth management includes private banking business and related assets in Hong Kong.

Financial institutions include trade financing activities with correspondent banks in Hong Kong.

Other Hong Kong operations mainly include insurance business, trust business, securities & futures broking, money lender activities and corporate financial advisory, other subsidiaries in Hong Kong and supporting units of Hong Kong operations.

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

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

For the purposes of assessing segment performance and allocating resources between 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 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.

|                                                                                                                                           | Hong Kong operations |                      |                     |                      |                           |         |         | Mainland<br>China<br>operations | Overseas<br>operations | Inter-<br>segment<br>elimination | Total   |
|-------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|---------------------|----------------------|---------------------------|---------|---------|---------------------------------|------------------------|----------------------------------|---------|
|                                                                                                                                           | Personal<br>banking  | Corporate<br>banking | Treasury<br>markets | Wealth<br>management | Financial<br>institutions | Others  | Total   |                                 |                        |                                  |         |
|                                                                                                                                           | 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<br>30 <sup>th</sup> June, 2019                                                                                             |                      |                      |                     |                      |                           |         |         |                                 |                        |                                  |         |
| Net interest income                                                                                                                       | 1,709                | 1,107                | 258                 | 201                  | 11                        | 696     | 3,982   | 2,657                           | 762                    | 5                                | 7,406   |
| Non-interest income/<br>(expense)                                                                                                         | 478                  | 221                  | 204                 | 206                  | 11                        | 1,124   | 2,244   | 506                             | 141                    | (195)                            | 2,696   |
| Operating income                                                                                                                          | 2,187                | 1,328                | 462                 | 407                  | 22                        | 1,820   | 6,226   | 3,163                           | 903                    | (190)                            | 10,102  |
| Operating expenses                                                                                                                        | (829)                | (146)                | (72)                | (109)                | (6)                       | (1,448) | (2,610) | (2,152)                         | (346)                  | 190                              | (4,918) |
| Operating profit before<br>impairment losses                                                                                              | 1,358                | 1,182                | 390                 | 298                  | 16                        | 372     | 3,616   | 1,011                           | 557                    | -                                | 5,184   |
| (Charge for)/Write<br>back of impairment<br>losses on financial<br>instruments                                                            | (98)                 | 13                   | 21                  | (1)                  | (2)                       | (1)     | (68)    | (5,065)                         | 70                     | -                                | (5,063) |
| Operating profit/(loss)<br>after impairment<br>losses                                                                                     | 1,260                | 1,195                | 411                 | 297                  | 14                        | 371     | 3,548   | (4,054)                         | 627                    | -                                | 121     |
| Profit/(Loss) on sale of<br>fixed assets,<br>financial assets<br>measured at<br>FVOCI and<br>investments<br>measured at<br>amortised cost | (6)                  | (3)                  | 44                  | -                    | -                         | 8       | 43      | 52                              | (2)                    | -                                | 93      |
| Profit on sale of<br>assets held for sale                                                                                                 | -                    | -                    | -                   | -                    | -                         | 79      | 79      | 3                               | -                      | -                                | 82      |
| Loss on disposal of<br>subsidiaries                                                                                                       | -                    | -                    | -                   | -                    | -                         | -       | -       | -                               | (6)                    | -                                | (6)     |
| Valuation gains on<br>investment<br>properties                                                                                            | -                    | -                    | -                   | -                    | -                         | 17      | 17      | -                               | 1                      | -                                | 18      |
| Share of profits less<br>losses of associates                                                                                             | -                    | -                    | -                   | -                    | -                         | 3       | 3       | 63                              | 262                    | -                                | 328     |
| Profit/(loss) before<br>taxation                                                                                                          | 1,254                | 1,192                | 455                 | 297                  | 14                        | 478     | 3,690   | (3,936)                         | 882                    | -                                | 636     |
| Depreciation for the<br>period                                                                                                            | (146)                | (1)                  | (3)                 | (1)                  | -                         | (113)   | (264)   | (152)                           | (33)                   | -                                | (449)   |
| At 30 <sup>th</sup> June, 2019                                                                                                            |                      |                      |                     |                      |                           |         |         |                                 |                        |                                  |         |
| Segment assets                                                                                                                            | 107,871              | 154,061              | 188,031             | 28,252               | 4,108                     | 41,262  | 523,585 | 280,172                         | 115,227                | (52,388)                         | 866,596 |
| Investments in<br>associates                                                                                                              | -                    | -                    | -                   | -                    | -                         | 54      | 54      | 3,742                           | 5,879                  | -                                | 9,675   |
| Other assets – Assets<br>held for sale                                                                                                    | -                    | -                    | -                   | -                    | -                         | 105     | 105     | 34                              | 368                    | -                                | 507     |
| Total assets                                                                                                                              | 107,871              | 154,061              | 188,031             | 28,252               | 4,108                     | 41,421  | 523,744 | 283,948                         | 121,474                | (52,388)                         | 876,778 |
| Segment liabilities                                                                                                                       | 327,634              | 17,386               | 69,995              | 23,329               | 8                         | 25,351  | 463,703 | 251,914                         | 107,654                | (51,484)                         | 771,787 |
| Other liabilities –<br>Liabilities held for<br>sale                                                                                       | -                    | -                    | -                   | -                    | -                         | 3       | 3       | -                               | -                      | -                                | 3       |
| Total liabilities                                                                                                                         | 327,634              | 17,386               | 69,995              | 23,329               | 8                         | 25,354  | 463,706 | 251,914                         | 107,654                | (51,484)                         | 771,790 |

|                                                                                       | Hong Kong operations        |                              |                             |                              |                                   |                   |                  | Mainland China operations | Overseas operations | Inter-segment elimination | Total   |
|---------------------------------------------------------------------------------------|-----------------------------|------------------------------|-----------------------------|------------------------------|-----------------------------------|-------------------|------------------|---------------------------|---------------------|---------------------------|---------|
|                                                                                       | Personal banking<br>HK\$ Mn | Corporate banking<br>HK\$ Mn | Treasury markets<br>HK\$ Mn | Wealth management<br>HK\$ Mn | Financial institutions<br>HK\$ Mn | Others<br>HK\$ Mn | Total<br>HK\$ Mn | HK\$ Mn                   | HK\$ Mn             | HK\$ Mn                   | HK\$ Mn |
| 6 months ended<br>30 <sup>th</sup> June, 2018<br>(Restated) (Note)                    |                             |                              |                             |                              |                                   |                   |                  |                           |                     |                           |         |
| Net interest income                                                                   | 1,501                       | 1,083                        | 322                         | 231                          | 13                                | 523               | 3,673            | 1,765                     | 810                 | 2                         | 6,250   |
| Non-interest income/<br>(expense)                                                     | 453                         | 212                          | 5                           | 226                          | 11                                | 846               | 1,753            | 550                       | 150                 | (177)                     | 2,276   |
| Operating income                                                                      | 1,954                       | 1,295                        | 327                         | 457                          | 24                                | 1,369             | 5,426            | 2,315                     | 960                 | (175)                     | 8,526   |
| Operating expenses                                                                    | (754)                       | (109)                        | (79)                        | (108)                        | (6)                               | (1,335)           | (2,391)          | (1,630)                   | (340)               | 175                       | (4,186) |
| Operating profit before<br>impairment losses                                          | 1,200                       | 1,186                        | 248                         | 349                          | 18                                | 34                | 3,035            | 685                       | 620                 | -                         | 4,340   |
| (Charge for)/Write<br>back of impairment<br>losses on financial<br>instruments        | (92)                        | (92)                         | (1)                         | 9                            | (1)                               | -                 | (177)            | (312)                     | 207                 | -                         | (282)   |
| Impairment losses on<br>intangible assets                                             | -                           | -                            | -                           | -                            | -                                 | -                 | -                | (1)                       | -                   | -                         | (1)     |
| Operating profit after<br>impairment losses                                           | 1,108                       | 1,094                        | 247                         | 358                          | 17                                | 34                | 2,858            | 372                       | 827                 | -                         | 4,057   |
| Profit/(Loss) on sale of<br>fixed assets,<br>financial assets<br>measured at<br>FVOCI | (7)                         | -                            | 45                          | -                            | -                                 | -                 | 38               | 1                         | -                   | -                         | 39      |
| Profit on sale of assets<br>held for sale                                             | -                           | -                            | -                           | -                            | -                                 | -                 | -                | -                         | 10                  | -                         | 10      |
| Valuation gains on<br>investment<br>properties                                        | -                           | -                            | -                           | -                            | -                                 | 394               | 394              | -                         | -                   | -                         | 394     |
| Share of profits less<br>losses of<br>associates                                      | -                           | -                            | -                           | -                            | -                                 | -                 | -                | 41                        | 240                 | -                         | 281     |
| Profit before taxation                                                                | 1,101                       | 1,094                        | 292                         | 358                          | 17                                | 428               | 3,290            | 414                       | 1,077               | -                         | 4,781   |
| Depreciation for the<br>period                                                        | (32)                        | (1)                          | (2)                         | (1)                          | -                                 | (84)              | (120)            | (105)                     | (15)                | -                         | (240)   |
| At 31 <sup>st</sup> December,<br>2018 (Restated)                                      |                             |                              |                             |                              |                                   |                   |                  |                           |                     |                           |         |
| Segment assets                                                                        | 103,770                     | 149,307                      | 177,169                     | 24,170                       | 7,041                             | 38,202            | 499,659          | 269,739                   | 108,272             | (48,036)                  | 829,634 |
| Investments in<br>associates                                                          | -                           | -                            | -                           | -                            | -                                 | 52                | 52               | 3,637                     | 5,440               | -                         | 9,129   |
| Other assets – Assets<br>held for sale                                                | -                           | -                            | -                           | -                            | -                                 | 276               | 276              | 49                        | 363                 | -                         | 688     |
| Total assets                                                                          | 103,770                     | 149,307                      | 177,169                     | 24,170                       | 7,041                             | 38,530            | 499,987          | 273,425                   | 114,075             | (48,036)                  | 839,451 |
| Segment liabilities                                                                   | 323,333                     | 14,116                       | 59,743                      | 23,378                       | 20                                | 20,402            | 440,992          | 240,872                   | 101,181             | (47,176)                  | 735,869 |
| Other liabilities –<br>Liabilities held for<br>sale                                   | -                           | -                            | -                           | -                            | -                                 | 7                 | 7                | -                         | -                   | -                         | 7       |
| Total liabilities                                                                     | 323,333                     | 14,116                       | 59,743                      | 23,378                       | 20                                | 20,409            | 440,999          | 240,872                   | 101,181             | (47,176)                  | 735,876 |

Note: Due to the change of ownership of some customer deposits and the revision of internal fund transfer pricing methodology, some internal charges and segment grouping, certain 2018 comparative figures have been restated to conform to current period's presentation.

### 30. Analysis of Assets and Liabilities by Remaining Maturity

|                                                                              | 30/6/2019              |                   |                                            |                                           |                                          |                 |                          |                |
|------------------------------------------------------------------------------|------------------------|-------------------|--------------------------------------------|-------------------------------------------|------------------------------------------|-----------------|--------------------------|----------------|
|                                                                              | Repayable<br>on demand | Within 1<br>month | 3 months<br>or less<br>but over 1<br>month | 1 year or<br>less but<br>over 3<br>months | 5 years<br>or less<br>but over<br>1 year | Over<br>5 years | Undated<br>or<br>overdue | Total          |
|                                                                              | HK\$ Mn                | HK\$ Mn           | HK\$ Mn                                    | HK\$ Mn                                   | HK\$ Mn                                  | HK\$ Mn         | HK\$ Mn                  | HK\$ Mn        |
| <b>Assets</b>                                                                |                        |                   |                                            |                                           |                                          |                 |                          |                |
| Cash and balances with<br>banks and other financial<br>institutions          | 31,900                 | -                 | 551                                        | 1,997                                     | -                                        | -               | 18,375                   | 52,823         |
| Placements with and<br>advances to banks and<br>other financial institutions | -                      | 60,709            | 6,521                                      | 2,335                                     | 155                                      | -               | -                        | 69,720         |
| Trade bills                                                                  | 233                    | 5,122             | 4,180                                      | 3,291                                     | -                                        | -               | -                        | 12,826         |
| Trading assets                                                               | -                      | -                 | 239                                        | 1,211                                     | 1,236                                    | 158             | 1,287                    | 4,131          |
| Derivative assets                                                            | -                      | -                 | -                                          | -                                         | -                                        | -               | 6,141                    | 6,141          |
| Loans and advances to<br>customers                                           | 3,824                  | 69,358            | 25,560                                     | 93,718                                    | 196,257                                  | 115,307         | 2,075                    | 506,099        |
| Investment securities                                                        | -                      | 5,568             | 14,245                                     | 31,763                                    | 67,341                                   | 35,143          | 3,152                    | 157,212        |
| Investments in associates                                                    | -                      | -                 | -                                          | -                                         | -                                        | -               | 9,675                    | 9,675          |
| Fixed assets                                                                 | -                      | -                 | -                                          | -                                         | -                                        | -               | 14,222                   | 14,222         |
| Goodwill and intangible<br>assets                                            | -                      | -                 | -                                          | -                                         | -                                        | -               | 1,933                    | 1,933          |
| Deferred tax assets                                                          | -                      | -                 | -                                          | -                                         | -                                        | -               | 1,565                    | 1,565          |
| Other assets                                                                 | 207                    | 6,470             | 8,065                                      | 14,251                                    | 704                                      | 240             | 10,494                   | 40,431         |
| <b>Total assets</b>                                                          | <b>36,164</b>          | <b>147,227</b>    | <b>59,361</b>                              | <b>148,566</b>                            | <b>265,693</b>                           | <b>150,848</b>  | <b>68,919</b>            | <b>876,778</b> |
| <b>Liabilities</b>                                                           |                        |                   |                                            |                                           |                                          |                 |                          |                |
| Deposits and balances of<br>banks and other financial<br>institutions        | 1,641                  | 12,809            | 11,316                                     | 10,279                                    | 12                                       | -               | -                        | 36,057         |
| Deposits from customers                                                      | 196,624                | 113,835           | 149,095                                    | 111,094                                   | 10,316                                   | 1,138           | 3                        | 582,105        |
| - Demand deposits and<br>current accounts                                    | 62,791                 | -                 | -                                          | -                                         | -                                        | -               | -                        | 62,791         |
| - Savings deposits                                                           | 131,735                | -                 | -                                          | -                                         | -                                        | -               | -                        | 131,735        |
| - Time, call and notice<br>deposits                                          | 2,098                  | 113,835           | 149,095                                    | 111,094                                   | 10,316                                   | 1,138           | 3                        | 387,579        |
| Trading liabilities                                                          | -                      | -                 | -                                          | -                                         | -                                        | -               | 38                       | 38             |
| Derivative liabilities                                                       | -                      | -                 | -                                          | -                                         | -                                        | -               | 8,139                    | 8,139          |
| Certificates of deposit<br>issued                                            | -                      | 5,941             | 17,457                                     | 40,505                                    | -                                        | -               | -                        | 63,903         |
| Current taxation                                                             | -                      | -                 | -                                          | 1,682                                     | -                                        | -               | -                        | 1,682          |
| Debt securities issued                                                       | -                      | 109               | -                                          | 156                                       | 2,841                                    | -               | -                        | 3,106          |
| Deferred tax liabilities                                                     | -                      | -                 | -                                          | -                                         | -                                        | -               | 583                      | 583            |
| Other liabilities                                                            | 1,445                  | 7,304             | 9,223                                      | 18,579                                    | 11,772                                   | 4,703           | 8,958                    | 61,984         |
| - Lease liabilities                                                          | -                      | 30                | 57                                         | 249                                       | 514                                      | 239             | -                        | 1,089          |
| - Other accounts                                                             | 1,445                  | 7,274             | 9,166                                      | 18,330                                    | 11,258                                   | 4,464           | 8,958                    | 60,895         |
| Loan capital                                                                 | -                      | -                 | -                                          | 3,897                                     | 10,296                                   | -               | -                        | 14,193         |
| <b>Total liabilities</b>                                                     | <b>199,710</b>         | <b>139,998</b>    | <b>187,091</b>                             | <b>186,192</b>                            | <b>35,237</b>                            | <b>5,841</b>    | <b>17,721</b>            | <b>771,790</b> |
| <b>Net gap</b>                                                               | <b>(163,546)</b>       | <b>7,229</b>      | <b>(127,730)</b>                           | <b>(37,626)</b>                           | <b>230,456</b>                           | <b>145,007</b>  |                          |                |

|                                                                              | 31/12/2018             |                   |                                            |                                           |                                          |                 |                          |                |
|------------------------------------------------------------------------------|------------------------|-------------------|--------------------------------------------|-------------------------------------------|------------------------------------------|-----------------|--------------------------|----------------|
|                                                                              | Repayable<br>on demand | Within 1<br>month | 3 months<br>or less<br>but over 1<br>month | 1 year or<br>less but<br>over 3<br>months | 5 years<br>or less<br>but over<br>1 year | Over<br>5 years | Undated<br>or<br>overdue | Total          |
|                                                                              | HK\$ Mn                | HK\$ Mn           | HK\$ Mn                                    | HK\$ Mn                                   | HK\$ Mn                                  | HK\$ Mn         | HK\$ Mn                  | HK\$ Mn        |
| <b>Assets</b>                                                                |                        |                   |                                            |                                           |                                          |                 |                          |                |
| Cash and balances with<br>banks and other financial<br>institutions          | 27,033                 | -                 | -                                          | 1,818                                     | -                                        | -               | 19,255                   | 48,106         |
| Placements with and<br>advances to banks and<br>other financial institutions | -                      | 43,957            | 15,536                                     | 802                                       | 78                                       | -               | -                        | 60,373         |
| Trade bills                                                                  | 16                     | 5,594             | 4,760                                      | 4,276                                     | -                                        | -               | -                        | 14,646         |
| Trading assets                                                               | -                      | 114               | 148                                        | 1,243                                     | 402                                      | 224             | 1,352                    | 3,483          |
| Derivative assets                                                            | -                      | -                 | -                                          | -                                         | -                                        | -               | 10,211                   | 10,211         |
| Loans and advances to<br>customers                                           | 2,899                  | 56,756            | 29,843                                     | 99,734                                    | 191,557                                  | 115,674         | 1,821                    | 498,284        |
| Investment securities                                                        | -                      | 6,353             | 9,033                                      | 26,354                                    | 71,656                                   | 27,528          | 3,805                    | 144,729        |
| Investments in associates                                                    | -                      | -                 | -                                          | -                                         | -                                        | -               | 9,129                    | 9,129          |
| Fixed assets                                                                 | -                      | -                 | -                                          | -                                         | -                                        | -               | 13,165                   | 13,165         |
| Goodwill and intangible<br>assets                                            | -                      | -                 | -                                          | -                                         | -                                        | -               | 1,940                    | 1,940          |
| Deferred tax assets                                                          | -                      | -                 | -                                          | -                                         | -                                        | -               | 481                      | 481            |
| Other assets                                                                 | 104                    | 7,154             | 6,415                                      | 13,691                                    | 713                                      | 195             | 6,632                    | 34,904         |
| <b>Total assets</b>                                                          | <b>30,052</b>          | <b>119,928</b>    | <b>65,735</b>                              | <b>147,918</b>                            | <b>264,406</b>                           | <b>143,621</b>  | <b>67,791</b>            | <b>839,451</b> |
| <b>Liabilities</b>                                                           |                        |                   |                                            |                                           |                                          |                 |                          |                |
| Deposits and balances of<br>banks and other financial<br>institutions        | 2,691                  | 15,154            | 5,827                                      | 3,818                                     | -                                        | -               | -                        | 27,490         |
| Deposits from customers                                                      | 203,713                | 118,991           | 146,031                                    | 88,469                                    | 16,906                                   | -               | 4                        | 574,114        |
| - Demand deposits and<br>current accounts                                    | 71,952                 | -                 | -                                          | -                                         | -                                        | -               | -                        | 71,952         |
| - Savings deposits                                                           | 130,477                | -                 | -                                          | -                                         | -                                        | -               | -                        | 130,477        |
| - Time, call and notice<br>deposits                                          | 1,284                  | 118,991           | 146,031                                    | 88,469                                    | 16,906                                   | -               | 4                        | 371,685        |
| Trading liabilities                                                          | -                      | -                 | -                                          | -                                         | -                                        | -               | -                        | -              |
| Derivative liabilities                                                       | -                      | -                 | -                                          | -                                         | -                                        | -               | 9,496                    | 9,496          |
| Certificates of deposit<br>issued                                            | -                      | 3,236             | 19,976                                     | 35,278                                    | -                                        | -               | -                        | 58,490         |
| Current taxation                                                             | -                      | -                 | -                                          | 1,437                                     | -                                        | -               | -                        | 1,437          |
| Debt securities issued                                                       | -                      | -                 | -                                          | 407                                       | 157                                      | -               | -                        | 564            |
| Deferred tax liabilities                                                     | -                      | -                 | -                                          | -                                         | -                                        | -               | 483                      | 483            |
| Other liabilities                                                            | 883                    | 5,339             | 7,075                                      | 15,971                                    | 9,881                                    | 3,955           | 8,340                    | 51,444         |
| Loan capital                                                                 | -                      | -                 | -                                          | -                                         | 12,358                                   | -               | -                        | 12,358         |
| <b>Total liabilities</b>                                                     | <b>207,287</b>         | <b>142,720</b>    | <b>178,909</b>                             | <b>145,380</b>                            | <b>39,302</b>                            | <b>3,955</b>    | <b>18,323</b>            | <b>735,876</b> |
| <b>Net gap</b>                                                               | <b>(177,235)</b>       | <b>(22,792)</b>   | <b>(113,174)</b>                           | <b>2,538</b>                              | <b>225,104</b>                           | <b>139,666</b>  |                          |                |

### 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 | Revaluation of properties | Impairment losses on financial assets | Revaluation of financial assets at FVOCI | Tax losses | Others      | Total        |
|-----------------------------------------------|-----------------------------------------------------------|---------------------------|---------------------------------------|------------------------------------------|------------|-------------|--------------|
|                                               | HK\$ Mn                                                   | HK\$ Mn                   | HK\$ Mn                               | HK\$ Mn                                  | HK\$ Mn    | HK\$ Mn     | HK\$ Mn      |
| At 1 <sup>st</sup> January, 2019              | 289                                                       | 113                       | (675)                                 | 74                                       | -          | 201         | 2            |
| (Credited)/Charged to income statement        | 31                                                        | -                         | (812)                                 | -                                        | (6)        | (264)       | (1,051)      |
| (Credited)/Charged to reserve                 | -                                                         | (1)                       | -                                     | 46                                       | -          | 1           | 46           |
| Exchange and other adjustments                | -                                                         | -                         | 16                                    | -                                        | 1          | 4           | 21           |
| At 30 <sup>th</sup> June, 2019                | <u>320</u>                                                | <u>112</u>                | <u>(1,471)</u>                        | <u>120</u>                               | <u>(5)</u> | <u>(58)</u> | <u>(982)</u> |
| Balance as at 31 <sup>st</sup> December, 2018 | <u>289</u>                                                | <u>113</u>                | <u>(675)</u>                          | <u>74</u>                                | <u>-</u>   | <u>201</u>  | <u>2</u>     |

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:

|                                                                                | 30/6/2019<br>HK\$ Mn       | 31/12/2018<br>HK\$ Mn  |
|--------------------------------------------------------------------------------|----------------------------|------------------------|
| Net deferred tax assets recognised on the statement of financial position      | (1,565)                    | (481)                  |
| Net deferred tax liabilities recognised on the statement of financial position | <u>583</u><br><u>(982)</u> | <u>483</u><br><u>2</u> |

### 32. Reserves

|                                              | 30/6/2019     | 31/12/2018    |
|----------------------------------------------|---------------|---------------|
|                                              | HK\$ Mn       | HK\$ Mn       |
| General reserve                              | 14,059        | 14,054        |
| Revaluation reserve on bank premises         | 1,748         | 1,752         |
| Capital reserve                              | 1,028         | 933           |
| Exchange revaluation reserve                 | (1,368)       | (1,426)       |
| Capital reserve – staff share options issued | 152           | 158           |
| Fair value reserve                           | 1,954         | 664           |
| Hedging reserve                              | 7             | 15            |
| Liability credit reserve                     | (4)           | (3)           |
| Other reserves                               | 5,321         | 4,963         |
| Retained profits*                            | 29,164        | 30,791        |
|                                              | <u>52,061</u> | <u>51,901</u> |
| Proposed dividends, not provided for         | <u>319</u>    | <u>1,906</u>  |

\* 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 30<sup>th</sup> June, 2019, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Bank to shareholders by HK\$4,942 million (31/12/2018: HK\$5,112 million).

### 33. Additional Equity Instruments

|                                                                           | 30/6/2019    | 31/12/2018   |
|---------------------------------------------------------------------------|--------------|--------------|
|                                                                           | HK\$ Mn      | HK\$ Mn      |
| USD650 million undated non-cumulative subordinated capital securities (1) | 5,016        | 5,016        |
| USD500 million undated non-cumulative subordinated capital securities (2) | 3,878        | 3,878        |
|                                                                           | <u>8,894</u> | <u>8,894</u> |

- (1) On 2<sup>nd</sup> December, 2015, 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\$5,016 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.50% coupon until the first call date on 2<sup>nd</sup> December, 2020. 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 3.834% 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.
- (2) On 18<sup>th</sup> 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% coupon until the first call date on 18<sup>th</sup> May, 2022. 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 3.682% 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.

### 34. Consolidated Cash Flow Statement

| Cash and cash equivalents                                                                                         | 30/6/2019<br>HK\$ Mn | 30/6/2018<br>HK\$ Mn |
|-------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| (i) Components of cash and cash equivalents in the consolidated cash flow statement                               |                      |                      |
| Cash and balances with banks and other financial institutions with original maturity within three months          | 32,474               | 25,640               |
| Placements with and advances to banks and other financial institutions with original maturity within three months | 63,975               | 60,524               |
| Treasury bills with original maturity within three months                                                         | 3,995                | 2,517                |
| Certificates of deposit held with original maturity within three months                                           | 148                  | 1,128                |
| Debt securities with original maturity within three months                                                        | 763                  | -                    |
| Add: Cash and balances with banks and other financial institutions included in "Assets held for sale" (Note 43)   | 2                    | 4                    |
|                                                                                                                   | <u>101,357</u>       | <u>89,813</u>        |
| (ii) Reconciliation with the consolidated statement of financial position                                         |                      |                      |
| Cash and balances with banks and other financial institutions                                                     | 52,823               | 48,869               |
| Placements with and advances to banks and other financial institutions                                            | 69,720               | 66,381               |
| Treasury bills, certificates of deposit held and debt securities                                                  |                      |                      |
| - trading assets                                                                                                  | 2,844                | 5,036                |
| - investment securities                                                                                           | 153,785              | 128,945              |
|                                                                                                                   | 156,629              | 133,981              |
| Add: Cash and balances with banks and other financial institutions included in "Assets held for sale" (Note 43)   | 2                    | 4                    |
| Amount shown in the consolidated statement of financial position                                                  | 279,174              | 249,235              |
| Less : Amounts with an original maturity of beyond three months                                                   | (157,460)            | (136,185)            |
| Cash balance with central bank subject to regulatory restriction                                                  | (20,357)             | (23,237)             |
| Cash and cash equivalents in the consolidated cash flow statement                                                 | <u>101,357</u>       | <u>89,813</u>        |

### 35. Offsetting Financial Instruments

The following tables present details of financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

|                   | At 30 <sup>th</sup> June, 2019                                                                                                              |                                                          |                                                                                                                       |                                                                |               |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|---------------|
|                   | Gross<br>amounts of<br>recognised<br>financial<br>liabilities<br>set off in<br>the<br>consolidated<br>statement of<br>financial<br>position | Gross<br>amounts of<br>recognised<br>financial<br>assets | Net amounts<br>of financial<br>assets<br>presented<br>in the<br>consolidated<br>statement of<br>financial<br>position | Related<br>financial<br>instruments<br>that are not<br>set off | Net<br>amount |
|                   | HK\$ Mn                                                                                                                                     | HK\$ Mn                                                  | HK\$ Mn                                                                                                               | HK\$ Mn                                                        | HK\$ Mn       |
| <b>Assets</b>     |                                                                                                                                             |                                                          |                                                                                                                       |                                                                |               |
| Derivative assets | 36                                                                                                                                          | -                                                        | 36                                                                                                                    | (32)                                                           | 4             |
| Other assets      | 434                                                                                                                                         | (282)                                                    | 152                                                                                                                   | -                                                              | 152           |
| <b>Total</b>      | <b>470</b>                                                                                                                                  | <b>(282)</b>                                             | <b>188</b>                                                                                                            | <b>(32)</b>                                                    | <b>156</b>    |

|                        | At 30 <sup>th</sup> June, 2019                    |                                                                                                          |                                                                                                    |                                                    |            |
|------------------------|---------------------------------------------------|----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|----------------------------------------------------|------------|
|                        | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off in the consolidated statement of financial position | Net amounts of financial liabilities presented in the consolidated statement of financial position | Related financial instruments that are not set off | Net amount |
|                        | HK\$ Mn                                           | HK\$ Mn                                                                                                  | HK\$ Mn                                                                                            | HK\$ Mn                                            | HK\$ Mn    |
| <b>Liabilities</b>     |                                                   |                                                                                                          |                                                                                                    |                                                    |            |
| Derivative liabilities | 105                                               | -                                                                                                        | 105                                                                                                | (32)                                               | 73         |
| Other liabilities      | 282                                               | (282)                                                                                                    | -                                                                                                  | -                                                  | -          |
| Total                  | 387                                               | (282)                                                                                                    | 105                                                                                                | (32)                                               | 73         |

At 31<sup>st</sup> December, 2018

|                   | Gross<br>amounts of<br>recognised<br>financial<br>liabilities<br>set off in<br>the<br>consolidated<br>statement of<br>financial<br>position | Gross<br>amounts of<br>recognised<br>financial<br>assets<br>set off in<br>the<br>consolidated<br>statement of<br>financial<br>position | Net amounts<br>of financial<br>assets<br>presented<br>in the<br>consolidated<br>statement of<br>financial<br>position | Related<br>financial<br>instruments<br>that are not<br>set off | Net<br>amount |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|---------------|
|                   | HK\$ Mn                                                                                                                                     | HK\$ Mn                                                                                                                                | HK\$ Mn                                                                                                               | HK\$ Mn                                                        | HK\$ Mn       |
| <b>Assets</b>     |                                                                                                                                             |                                                                                                                                        |                                                                                                                       |                                                                |               |
| Derivative assets | 20                                                                                                                                          | -                                                                                                                                      | 20                                                                                                                    | (19)                                                           | 1             |
| Other assets      | 441                                                                                                                                         | (423)                                                                                                                                  | 18                                                                                                                    | -                                                              | 18            |
| Total             | 461                                                                                                                                         | (423)                                                                                                                                  | 38                                                                                                                    | (19)                                                           | 19            |

At 31<sup>st</sup> December, 2018

|                        | Gross<br>amounts of<br>recognised<br>financial<br>assets<br>set off in<br>the<br>consolidated<br>statement of<br>financial<br>position | Gross<br>amounts of<br>recognised<br>financial<br>liabilities<br>set off in<br>the<br>consolidated<br>statement of<br>financial<br>position | Net amounts<br>of financial<br>liabilities<br>presented<br>in the<br>consolidated<br>statement of<br>financial<br>position | Related<br>financial<br>instruments<br>that are not<br>set off | Net<br>amount |
|------------------------|----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|---------------|
|                        | HK\$ Mn                                                                                                                                | HK\$ Mn                                                                                                                                     | HK\$ Mn                                                                                                                    | HK\$ Mn                                                        | HK\$ Mn       |
| <b>Liabilities</b>     |                                                                                                                                        |                                                                                                                                             |                                                                                                                            |                                                                |               |
| Derivative liabilities | 48                                                                                                                                     | -                                                                                                                                           | 48                                                                                                                         | (19)                                                           | 29            |
| Other liabilities      | 423                                                                                                                                    | (423)                                                                                                                                       | -                                                                                                                          | -                                                              | -             |
| Total                  | 471                                                                                                                                    | (423)                                                                                                                                       | 48                                                                                                                         | (19)                                                           | 29            |

The tables below reconcile the “net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the derivative assets, other assets, derivative liabilities and other liabilities presented in the consolidated statement of financial position.

|                                                                 | 30/6/2019         |               | 31/12/2018        |               |
|-----------------------------------------------------------------|-------------------|---------------|-------------------|---------------|
|                                                                 | Derivative assets | Other assets  | Derivative assets | Other assets  |
|                                                                 | HK\$ Mn           | HK\$ Mn       | HK\$ Mn           | HK\$ Mn       |
| Net amount of financial assets after offsetting as stated above | 36                | 152           | 20                | 18            |
| Financial assets not in scope of offsetting disclosure          | 6,105             | 40,689        | 10,191            | 35,177        |
| Impairment allowances                                           | -                 | (410)         | -                 | (291)         |
|                                                                 | <u>6,141</u>      | <u>40,431</u> | <u>10,211</u>     | <u>34,904</u> |

|                                                                      | 30/6/2019              |                   | 31/12/2018             |                   |
|----------------------------------------------------------------------|------------------------|-------------------|------------------------|-------------------|
|                                                                      | Derivative liabilities | Other liabilities | Derivative liabilities | Other liabilities |
|                                                                      | HK\$ Mn                | HK\$ Mn           | HK\$ Mn                | HK\$ Mn           |
| Net amount of financial liabilities after offsetting as stated above | 105                    | -                 | 48                     | -                 |
| Financial liabilities not in scope of offsetting disclosure          | 8,034                  | 61,984            | 9,448                  | 51,444            |
|                                                                      | <u>8,139</u>           | <u>61,984</u>     | <u>9,496</u>           | <u>51,444</u>     |

### 36. 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-wide 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.

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.

|                                                                       | 30/6/2019     |                |              |                | 31/12/2018    |                |             |                |
|-----------------------------------------------------------------------|---------------|----------------|--------------|----------------|---------------|----------------|-------------|----------------|
|                                                                       | Level One     | Level Two      | Level Three  | Total          | Level One     | Level Two      | Level Three | Total          |
|                                                                       | HK\$ Mn       | HK\$ Mn        | HK\$ Mn      | HK\$ Mn        | HK\$ Mn       | HK\$ Mn        | HK\$ Mn     | HK\$ Mn        |
| <b><u>Recurring fair value measurement</u></b>                        |               |                |              |                |               |                |             |                |
| <b>Assets</b>                                                         |               |                |              |                |               |                |             |                |
| Trade Bills - At FVOCI                                                | -             | 11,795         | -            | 11,795         | -             | 11,764         | -           | 11,764         |
| Trading assets                                                        | 1,386         | 2,745          | -            | 4,131          | 1,371         | 2,112          | -           | 3,483          |
| Derivative assets                                                     | -             | 6,141          | -            | 6,141          | -             | 10,211         | -           | 10,211         |
| Investment securities                                                 |               |                |              |                |               |                |             |                |
| - Mandatorily measured at FVTPL                                       | 1,537         | 10,210         | 287          | 12,034         | 2,471         | 11,251         | 309         | 14,031         |
| - Designated at FVTPL                                                 | -             | 1,303          | -            | 1,303          | -             | 1,630          | -           | 1,630          |
| - At FVOCI                                                            | 29,201        | 94,480         | 1,105        | 124,786        | 22,125        | 87,234         | 688         | 110,047        |
|                                                                       | <u>32,124</u> | <u>126,674</u> | <u>1,392</u> | <u>160,190</u> | <u>25,967</u> | <u>124,202</u> | <u>997</u>  | <u>151,166</u> |
| <b>Liabilities</b>                                                    |               |                |              |                |               |                |             |                |
| Trading liabilities                                                   | 38            | -              | -            | 38             | -             | -              | -           | -              |
| Derivative liabilities                                                | -             | 8,139          | -            | 8,139          | -             | 9,496          | -           | 9,496          |
| Financial liabilities designated at fair value through profit or loss | -             | 23,919         | -            | 23,919         | -             | 11,204         | -           | 11,204         |
|                                                                       | <u>38</u>     | <u>32,058</u>  | <u>-</u>     | <u>32,096</u>  | <u>-</u>      | <u>20,700</u>  | <u>-</u>    | <u>20,700</u>  |

During the period ended 30<sup>th</sup> June, 2019 and year ended 31<sup>st</sup> December, 2018, 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.

Information about significant unobservable inputs in Level 3 valuations:

|                                                 | Valuation technique        | Significant unobservable input(s) | Value or range                                     |
|-------------------------------------------------|----------------------------|-----------------------------------|----------------------------------------------------|
| Unlisted equity securities and investment funds | Net asset value            | N/A                               | N/A                                                |
|                                                 | Discounted cash flow model | Discount rate                     | 30/6/2019: 8.8%<br>(2018: 11.8%)                   |
|                                                 |                            | Marketability discount            | 30/6/2019: 20%<br>(2018: 20%)                      |
|                                                 | Market-comparable approach | Earnings multiple                 | 30/6/2019:<br>28.74 – 30.84<br>(2018: 18.24-19.90) |
|                                                 |                            | EV/EBIT                           | 30/6/2019:<br>25.90 – 31.75<br>(2018: 22.54-23.18) |
|                                                 |                            | Marketability discount            | 30/6/2019: 50%<br>(2018: 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, such as price/earning ratio of comparables, 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.

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

(1) Valuation of financial instruments with significant unobservable inputs

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

|                                                                                                                                                                                            | 30/6/2019                                           |                                | 31/12/2018                                          |                                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|--------------------------------|-----------------------------------------------------|--------------------------------|
|                                                                                                                                                                                            | Investment securities mandatorily measured at FVTPL | Investment securities at FVOCI | Investment securities mandatorily measured at FVTPL | Investment securities at FVOCI |
|                                                                                                                                                                                            | HK\$ Mn                                             | HK\$ Mn                        | HK\$ Mn                                             | HK\$ Mn                        |
| <b>Assets</b>                                                                                                                                                                              |                                                     |                                |                                                     |                                |
| At 1 <sup>st</sup> January                                                                                                                                                                 | 309                                                 | 688                            | 213                                                 | 349                            |
| Purchases                                                                                                                                                                                  | -                                                   | -                              | 124                                                 | 43                             |
| Settlements                                                                                                                                                                                | (7)                                                 | -                              | (13)                                                | -                              |
| Changes in fair value recognised in the income statement                                                                                                                                   | (15)                                                | -                              | (15)                                                | -                              |
| Changes in fair value recognised in the other comprehensive income                                                                                                                         | -                                                   | 417                            | -                                                   | 296                            |
| At 30 <sup>th</sup> June/31 <sup>st</sup> December                                                                                                                                         | <u>287</u>                                          | <u>1,105</u>                   | <u>309</u>                                          | <u>688</u>                     |
| Total gains or 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>417</u>                     | <u>-</u>                                            | <u>296</u>                     |
| Total gains or losses 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>(15)</u>                                         | <u>-</u>                       | <u>(15)</u>                                         | <u>-</u>                       |

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

|                                                     | 30/6/2019                                    |                                                  |                                               |                                                   |
|-----------------------------------------------------|----------------------------------------------|--------------------------------------------------|-----------------------------------------------|---------------------------------------------------|
|                                                     | Effect recorded in profit or loss Favourable | Effect recorded in profit or loss (Unfavourable) | Effect recorded directly in equity Favourable | Effect recorded directly in equity (Unfavourable) |
|                                                     | HK\$ Mn                                      | HK\$ Mn                                          | HK\$ Mn                                       | HK\$ Mn                                           |
| Financial assets                                    |                                              |                                                  |                                               |                                                   |
| Investment securities mandatorily measured at FVTPL | 24                                           | (24)                                             | -                                             | -                                                 |
| Investment securities at FVOCI                      | -                                            | -                                                | 92                                            | (92)                                              |
|                                                     | <u>24</u>                                    | <u>(24)</u>                                      | <u>92</u>                                     | <u>(92)</u>                                       |
|                                                     | 31/12/2018                                   |                                                  |                                               |                                                   |
|                                                     | Effect recorded in profit or loss Favourable | Effect recorded in profit or loss (Unfavourable) | Effect recorded directly in equity Favourable | Effect recorded directly in equity (Unfavourable) |
|                                                     | HK\$ Mn                                      | HK\$ Mn                                          | HK\$ Mn                                       | HK\$ Mn                                           |
| Financial assets                                    |                                              |                                                  |                                               |                                                   |
| Investment securities mandatorily measured at FVTPL | 26                                           | (26)                                             | -                                             | -                                                 |
| Investment securities at FVOCI                      | -                                            | -                                                | 57                                            | (57)                                              |
|                                                     | <u>26</u>                                    | <u>(26)</u>                                      | <u>57</u>                                     | <u>(57)</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% in reasonably possible alternative assumptions.

(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 30<sup>th</sup> June, 2019 and 31<sup>st</sup> December, 2018 except as follows:

|                                         | 30/6/2019       |            | 31/12/2018      |            |
|-----------------------------------------|-----------------|------------|-----------------|------------|
|                                         | Carrying amount | Fair value | Carrying amount | Fair value |
|                                         | HK\$ Mn         | HK\$ Mn    | HK\$ Mn         | HK\$ Mn    |
| Financial assets                        |                 |            |                 |            |
| Investment securities at amortised cost | 19,089          | 19,348     | 19,021          | 19,140     |

### 37. Credit Risk

The Group adopts the criteria of stage allocation as follows:-

| HKMA’s 5-Grade Asset |                                                                                            | Stage allocation |
|----------------------|--------------------------------------------------------------------------------------------|------------------|
| Pass                 | General<br>(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 two 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; and
- The rating of the exposure falls out of the "Low-Credit Risk Threshold" that 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.

| Loans and advances to customers at amortised cost | 30/6/2019    |                  |                                  |                  |                              |                  |           |                  |
|---------------------------------------------------|--------------|------------------|----------------------------------|------------------|------------------------------|------------------|-----------|------------------|
|                                                   | 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           |
|                                                   |              |                  |                                  |                  |                              |                  |           |                  |
| - Grades 1 - 15: Pass                             | 473,718      | 1,133            | 21,740                           | 99               | -                            | -                | 495,458   | 1,232            |
| - Grades 16 - 17: Special Mention                 | -            | -                | 7,488                            | 56               | -                            | -                | 7,488     | 56               |
| - Grade 18: Substandard                           | -            | -                | -                                | -                | 5,735                        | 8                | 5,735     | 8                |
| - Grade 19: Doubtful                              | -            | -                | -                                | -                | 2,028                        | 151              | 2,028     | 151              |
| - Grade 20: Loss                                  | -            | -                | -                                | -                | 572                          | 203              | 572       | 203              |
| Total gross carrying amount                       | 473,718      | 1,133            | 29,228                           | 155              | 8,335                        | 362              | 511,281   | 1,650            |
| Impairment allowances                             | (387)        | (1)              | (849)                            | (4)              | (3,946)                      | (208)            | (5,182)   | (213)            |
| Carrying amount                                   | 473.331      | 1.132            | 28.379                           | 151              | 4.389                        | 154              | 506.099   | 1.437            |

**Loans and advances to customers at amortised cost**

- Grades 1 - 15: Pass
- Grades 16 - 17: Special Mention
- Grade 18: Substandard
- Grade 19: Doubtful
- Grade 20: Loss
- Total gross carrying amount
- Impairment allowances
- Carrying amount

| 31/12/2018   |                  |                                  |                  |                              |                  |           |                  |
|--------------|------------------|----------------------------------|------------------|------------------------------|------------------|-----------|------------------|
| 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          |
|              |                  |                                  |                  |                              |                  |           |                  |
| 465,980      | 1,124            | 25,413                           | 100              | -                            | -                | 491,393   | 1,224            |
| -            | -                | 5,747                            | 29               | -                            | -                | 5,747     | 29               |
| -            | -                | -                                | -                | 1,226                        | 17               | 1,226     | 17               |
| -            | -                | -                                | -                | 1,718                        | 109              | 1,718     | 109              |
| -            | -                | -                                | -                | 547                          | 187              | 547       | 187              |
| 465,980      | 1,124            | 31,160                           | 129              | 3,491                        | 313              | 500,631   | 1,566            |
| (431)        | (1)              | (855)                            | (4)              | (1,061)                      | (191)            | (2,347)   | (196)            |
| 465,549      | 1,123            | 30,305                           | 125              | 2,430                        | 122              | 498,284   | 1,370            |

**Credit quality of financial assets other than loans and advances**

The following tables set out the credit analysis for debt instruments 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 amount in the table represent the amounts committed or guaranteed, respectively.

**Trade bills at amortised cost**

- Grades 1 - 15: Pass
- Grades 16 - 17: Special Mention
- Grade 18: Substandard
- Grade 19: Doubtful
- Grade 20: Loss
- Total gross carrying amount
- Impairment allowances
- Carrying amount

| 30/6/2019    |                  |                                  |                  |                              |                  |           |                  |
|--------------|------------------|----------------------------------|------------------|------------------------------|------------------|-----------|------------------|
| 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          |
|              |                  |                                  |                  |                              |                  |           |                  |
| 1,029        | 13               | 2                                | -                | -                            | -                | 1,031     | 13               |
| -            | -                | -                                | -                | -                            | -                | -         | -                |
| -            | -                | -                                | -                | -                            | -                | -         | -                |
| -            | -                | -                                | -                | -                            | -                | -         | -                |
| -            | -                | -                                | -                | -                            | -                | -         | -                |
| 1,029        | 13               | 2                                | -                | -                            | -                | 1,031     | 13               |
| -            | -                | -                                | -                | -                            | -                | -         | -                |
| 1,029        | 13               | 2                                | -                | -                            | -                | 1,031     | 13               |

**Trade bills at amortised cost**

- Grades 1 - 15: Pass  
- Grades 16 - 17: Special Mention  
- Grade 18: Substandard  
- Grade 19: Doubtful  
- Grade 20: Loss  
Total gross carrying amount  
Impairment allowances  
Carrying amount

| 31/12/2018   |                  |                                  |                  |                              |                  |           |                  |
|--------------|------------------|----------------------------------|------------------|------------------------------|------------------|-----------|------------------|
| 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          |
|              |                  |                                  |                  |                              |                  |           |                  |
| 2,816        | 45               | 69                               | -                | -                            | -                | 2,885     | 45               |
| -            | -                | -                                | -                | -                            | -                | -         | -                |
| -            | -                | -                                | -                | -                            | -                | -         | -                |
| -            | -                | -                                | -                | 1                            | -                | 1         | -                |
| -            | -                | -                                | -                | -                            | -                | -         | -                |
| 2,816        | 45               | 69                               | -                | 1                            | -                | 2,886     | 45               |
| (3)          | -                | -                                | -                | (1)                          | -                | (4)       | -                |
| 2,813        | 45               | 69                               | -                | -                            | -                | 2,882     | 45               |

**Trade bills at FVOCI**

- Grades 1 - 15: Pass  
Total carrying amount at fair value  
Impairment allowances

| 30/6/2019    |                  |                                  |                  |                              |                  |           |                  |
|--------------|------------------|----------------------------------|------------------|------------------------------|------------------|-----------|------------------|
| 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          |
|              |                  |                                  |                  |                              |                  |           |                  |
| 10,401       | 1                | 1,394                            | -                | -                            | -                | 11,795    | 1                |
| 10,401       | 1                | 1,394                            | -                | -                            | -                | 11,795    | 1                |
| (4)          | -                | (3)                              | -                | -                            | -                | (7)       | -                |

**Trade bills at FVOCI**

- Grades 1 - 15: Pass  
Total carrying amount at fair value  
Impairment allowances

| 31/12/2018   |                  |                                  |                  |                              |                  |           |                  |
|--------------|------------------|----------------------------------|------------------|------------------------------|------------------|-----------|------------------|
| 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          |
|              |                  |                                  |                  |                              |                  |           |                  |
| 11,541       | 2                | 223                              | -                | -                            | -                | 11,764    | 2                |
| 11,541       | 2                | 223                              | -                | -                            | -                | 11,764    | 2                |
| (5)          | -                | -                                | -                | -                            | -                | (5)       | -                |

**Placements with and advances to banks and other financial institutions**

- Grades 1 - 15: Pass  
Total gross carrying amount  
Impairment allowances  
Carrying amount

| 30/6/2019    |                  |                                  |                  |                              |                  |           |                  |
|--------------|------------------|----------------------------------|------------------|------------------------------|------------------|-----------|------------------|
| 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          |
|              |                  |                                  |                  |                              |                  |           |                  |
| 69,728       | 52               | -                                | -                | -                            | -                | 69,728    | 52               |
| 69,728       | 52               | -                                | -                | -                            | -                | 69,728    | 52               |
| (8)          | -                | -                                | -                | -                            | -                | (8)       | -                |
| 69,720       | 52               | -                                | -                | -                            | -                | 69,720    | 52               |

**Placements with and advances to banks and other financial institutions**

- Grades 1 - 15: Pass  
Total gross carrying amount  
Impairment allowances  
Carrying amount

| 31/12/2018   |                  |                                  |                  |                              |                  |           |                  |
|--------------|------------------|----------------------------------|------------------|------------------------------|------------------|-----------|------------------|
| 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          |
|              |                  |                                  |                  |                              |                  |           |                  |
| 60,224       | 127              | 159                              | -                | -                            | -                | 60,383    | 127              |
| 60,224       | 127              | 159                              | -                | -                            | -                | 60,383    | 127              |
| (10)         | -                | -                                | -                | -                            | -                | (10)      | -                |
| 60,214       | 127              | 159                              | -                | -                            | -                | 60,373    | 127              |

**Loan commitments**

- Grades 1 - 15: Pass  
- Grades 16 - 17: Special Mention  
- Grade 18: Substandard  
Total  
Impairment allowances

**Financial guarantee contracts**

- Grades 1 - 15: Pass  
- Grades 16 - 17: Special Mention  
- Grade 18: Substandard  
Total  
Impairment allowances

| 30/6/2019    |                                  |                              |         |
|--------------|----------------------------------|------------------------------|---------|
| 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | Total   |
| HK\$ Mn      | HK\$ Mn                          | HK\$ Mn                      | HK\$ Mn |
|              |                                  |                              |         |
| 122,915      | 5,379                            | -                            | 128,294 |
| -            | 173                              | -                            | 173     |
| -            | -                                | 554                          | 554     |
| 122,915      | 5,552                            | 554                          | 129,021 |
| (49)         | (37)                             | -                            | (86)    |
|              |                                  |                              |         |
|              |                                  |                              |         |
| 22,215       | 2,326                            | -                            | 24,541  |
| -            | 4                                | -                            | 4       |
| -            | -                                | -                            | -       |
| 22,215       | 2,330                            | -                            | 24,545  |
| (6)          | (8)                              | -                            | (14)    |

**Loan commitments**

- Grades 1 - 15: Pass  
- Grades 16 - 17: Special Mention  
Total  
Impairment allowances

**Financial guarantee contracts**

- Grades 1 - 15: Pass  
- Grades 16 - 17: Special Mention  
Total  
Impairment allowances

| 31/12/2018   |                                  |                              |         |
|--------------|----------------------------------|------------------------------|---------|
| 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | Total   |
| HK\$ Mn      | HK\$ Mn                          | HK\$ Mn                      | HK\$ Mn |
|              |                                  |                              |         |
| 111,004      | 5,822                            | -                            | 116,826 |
| -            | 58                               | -                            | 58      |
| 111,004      | 5,880                            | -                            | 116,884 |
| (56)         | (40)                             | -                            | (96)    |
|              |                                  |                              |         |
|              |                                  |                              |         |
| 25,136       | 2,101                            | -                            | 27,237  |
| -            | 7                                | -                            | 7       |
| 25,136       | 2,108                            | -                            | 27,244  |
| (10)         | (5)                              | -                            | (15)    |

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:

| 30/6/2019                                           |                  |                                  |                  |                              |                  |           |                  |
|-----------------------------------------------------|------------------|----------------------------------|------------------|------------------------------|------------------|-----------|------------------|
| 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          |
| <b>Debt investment securities at amortised cost</b> |                  |                                  |                  |                              |                  |           |                  |
| Aaa                                                 | -                | -                                | -                | -                            | -                | -         | -                |
| Aa1 to Aa3                                          | 2,848            | 1                                | -                | -                            | -                | 2,848     | 1                |
| A1 to A3                                            | 5,628            | 99                               | -                | -                            | -                | 5,628     | 99               |
| Baa1 to Baa3                                        | 2,560            | 33                               | -                | -                            | -                | 2,560     | 33               |
| Below Baa3                                          | 1,903            | 27                               | 79               | 1                            | -                | 1,982     | 28               |
| Unrated                                             | 6,119            | 74                               | 28               | 1                            | -                | 6,147     | 75               |
| Total gross carrying amount                         | 19,058           | 234                              | 107              | 2                            | -                | 19,165    | 236              |
| Impairment allowances                               | (74)             | -                                | (2)              | -                            | -                | (76)      | -                |
| Carrying amount                                     | 18,984           | 234                              | 105              | 2                            | -                | 19,089    | 236              |

| 31/12/2018                                          |                  |                                  |                  |                              |                  |           |                  |
|-----------------------------------------------------|------------------|----------------------------------|------------------|------------------------------|------------------|-----------|------------------|
| 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          |
| <b>Debt investment securities at amortised cost</b> |                  |                                  |                  |                              |                  |           |                  |
| Aaa                                                 | -                | -                                | -                | -                            | -                | -         | -                |
| Aa1 to Aa3                                          | 2,695            | 2                                | -                | -                            | -                | 2,695     | 2                |
| A1 to A3                                            | 6,007            | 103                              | -                | -                            | -                | 6,007     | 103              |
| Baa1 to Baa3                                        | 2,546            | 32                               | -                | -                            | -                | 2,546     | 32               |
| Below Baa3                                          | 1,492            | 20                               | -                | -                            | -                | 1,492     | 20               |
| Unrated                                             | 6,347            | 76                               | 28               | 1                            | -                | 6,375     | 77               |
| Total gross carrying amount                         | 19,087           | 233                              | 28               | 1                            | -                | 19,115    | 234              |
| Impairment allowances                               | (93)             | (1)                              | (1)              | -                            | -                | (94)      | (1)              |
| Carrying amount                                     | 18,994           | 232                              | 27               | 1                            | -                | 19,021    | 233              |

| 30/6/2019                                  |                  |                                  |                  |                              |                  |           |                  |
|--------------------------------------------|------------------|----------------------------------|------------------|------------------------------|------------------|-----------|------------------|
| 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          |
| <b>Debt investment securities at FVOCI</b> |                  |                                  |                  |                              |                  |           |                  |
| Aaa                                        | 6,444            | 7                                | -                | -                            | -                | 6,444     | 7                |
| Aa1 to Aa3                                 | 21,211           | 5                                | -                | -                            | -                | 21,211    | 5                |
| A1 to A3                                   | 48,622           | 623                              | -                | -                            | -                | 48,622    | 623              |
| Baa1 to Baa3                               | 37,077           | 396                              | -                | -                            | -                | 37,077    | 396              |
| Below Baa3                                 | 1,338            | 13                               | -                | -                            | -                | 1,338     | 13               |
| Unrated                                    | 8,755            | 103                              | 234              | 3                            | -                | 8,989     | 106              |
| Total carrying amount at fair value        | 123,447          | 1,147                            | 234              | 3                            | -                | 123,681   | 1,150            |
| Impairment allowances                      | (235)            | (2)                              | (4)              | -                            | -                | (239)     | (2)              |

| 31/12/2018                                 |                  |                                  |                  |                              |                  |           |                  |
|--------------------------------------------|------------------|----------------------------------|------------------|------------------------------|------------------|-----------|------------------|
| 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          |
| <b>Debt investment securities at FVOCI</b> |                  |                                  |                  |                              |                  |           |                  |
| Aaa                                        | 5,566            | 8                                | -                | -                            | -                | 5,566     | 8                |
| Aa1 to Aa3                                 | 19,355           | 7                                | -                | -                            | -                | 19,355    | 7                |
| A1 to A3                                   | 41,890           | 627                              | -                | -                            | -                | 41,890    | 627              |
| Baa1 to Baa3                               | 31,302           | 336                              | -                | -                            | -                | 31,302    | 336              |
| Below Baa3                                 | 1,157            | 15                               | -                | -                            | -                | 1,157     | 15               |
| Unrated                                    | 9,856            | 130                              | 233              | 3                            | -                | 10,089    | 133              |
| Total carrying amount at fair value        | 109,126          | 1,123                            | 233              | 3                            | -                | 109,359   | 1,126            |
| Impairment allowances                      | (257)            | (3)                              | (6)              | -                            | -                | (263)     | (3)              |

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

|                                     | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|-------------------------------------|----------------------|-----------------------|
| <b>Debt investment securities</b>   |                      |                       |
| Aaa                                 | 158                  | 159                   |
| Aa1 to Aa3                          | 2,414                | 2,564                 |
| A1 to A3                            | 1,504                | 1,736                 |
| Baa1 to Baa3                        | 5,951                | 6,551                 |
| Below Baa3                          | -                    | 258                   |
| Unrated                             | 988                  | 1,025                 |
| Total carrying amount at fair value | 11,015               | 12,293                |

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

|                                     | 30/6/2019    | 31/12/2018   |
|-------------------------------------|--------------|--------------|
|                                     | HK\$ Mn      | HK\$ Mn      |
| <b>Debt investment securities</b>   |              |              |
| Aaa                                 | -            | -            |
| Aa1 to Aa3                          | 100          | 24           |
| A1 to A3                            | 2,303        | 1,856        |
| Baa1 to Baa3                        | 373          | 125          |
| Below Baa3                          | -            | -            |
| Unrated                             | 68           | 126          |
| Total carrying amount at fair value | <u>2,844</u> | <u>2,131</u> |

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

|                                     | 30/6/2019    | 31/12/2018    |
|-------------------------------------|--------------|---------------|
|                                     | HK\$ Mn      | HK\$ Mn       |
| <b>Derivative assets</b>            |              |               |
| Aa1 to Aa3                          | 102          | 255           |
| A1 to A3                            | 1,991        | 4,102         |
| Baa1 to Baa3                        | 1,244        | 3,975         |
| Below Baa3                          | 1,165        | 215           |
| Unrated                             | 1,639        | 1,664         |
| Total carrying amount at fair value | <u>6,141</u> | <u>10,211</u> |

#### **Cash and balances with banks and other financial institutions**

The Group held cash and balances with banks and other financial institutions of HK\$52,831 million at 30<sup>th</sup> June, 2019 (31<sup>st</sup> December, 2018: HK\$48,111 million), of which 95% (31<sup>st</sup> December, 2018: 98%) of cash and balances with banks and other financial institutions counterparties that are rated at investment grade, based on Moody's Investor Services, or equivalent ratings.

**b. Impairment Allowances Reconciliation**

The following tables show reconciliations from the opening to the closing balance of the impairment allowance by class of financial instrument. The reconciliation is prepared by comparing the position of impairment allowance between 1<sup>st</sup> January and 30<sup>th</sup> June/31<sup>st</sup> December at transaction level.

|                                                                                                   | 30/6/2019       |                                         |                                     |              |
|---------------------------------------------------------------------------------------------------|-----------------|-----------------------------------------|-------------------------------------|--------------|
|                                                                                                   | 12-month<br>ECL | Lifetime ECL<br>not credit-<br>impaired | Lifetime ECL<br>credit-<br>impaired | Total        |
|                                                                                                   | HK\$ Mn         | HK\$ Mn                                 | HK\$ Mn                             | HK\$ Mn      |
| <b>Loans and advances to customers</b>                                                            |                 |                                         |                                     |              |
| Balance at 1 <sup>st</sup> January                                                                | 432             | 859                                     | 1,252                               | 2,543        |
| Transfer to 12-month ECL                                                                          | 94              | (94)                                    | -                                   | -            |
| Transfer to lifetime ECL not credit-impaired                                                      | (20)            | 36                                      | (16)                                | -            |
| Transfer to lifetime ECL credit-impaired                                                          | (770)           | (711)                                   | 1,481                               | -            |
| New financial assets originated or purchased, assets derecognised, repayments and further lending | 55              | 14                                      | 321                                 | 390          |
| Write-offs                                                                                        | -               | -                                       | (2,139)                             | (2,139)      |
| Changes in models                                                                                 | -               | -                                       | -                                   | -            |
| Net remeasurement of impairment allowances (including exchange adjustments)                       | 597             | 749                                     | 3,255                               | 4,601        |
| Balance at 30 <sup>th</sup> June                                                                  | <u>388</u>      | <u>853</u>                              | <u>4,154</u>                        | <u>5,395</u> |

Of which:

|                                            |            |            |              |              |
|--------------------------------------------|------------|------------|--------------|--------------|
| For advance to customers at amortised cost | 387        | 849        | 3,946        | 5,182        |
| For related accrued interest receivable    | 1          | 4          | 208          | 213          |
|                                            | <u>388</u> | <u>853</u> | <u>4,154</u> | <u>5,395</u> |

|                                                                                                   | 31/12/2018      |                                         |                                     |              |
|---------------------------------------------------------------------------------------------------|-----------------|-----------------------------------------|-------------------------------------|--------------|
|                                                                                                   | 12-month<br>ECL | Lifetime ECL<br>not credit-<br>impaired | Lifetime ECL<br>credit-<br>impaired | Total        |
|                                                                                                   | HK\$ Mn         | HK\$ Mn                                 | HK\$ Mn                             | HK\$ Mn      |
| <b>Loans and advances to customers</b>                                                            |                 |                                         |                                     |              |
| Balance at 1 <sup>st</sup> January                                                                | 839             | 1,028                                   | 1,177                               | 3,044        |
| Transfer to 12-month ECL                                                                          | 151             | (151)                                   | -                                   | -            |
| Transfer to lifetime ECL not credit-impaired                                                      | (8)             | 23                                      | (15)                                | -            |
| Transfer to lifetime ECL credit-impaired                                                          | (98)            | (203)                                   | 301                                 | -            |
| New financial assets originated or purchased, assets derecognised, repayments and further lending | (88)            | (230)                                   | 376                                 | 58           |
| Write-offs                                                                                        | -               | -                                       | (1,649)                             | (1,649)      |
| Changes in models                                                                                 | (229)           | 287                                     | 17                                  | 75           |
| Net remeasurement of impairment allowances (including exchange adjustments)                       | (135)           | 105                                     | 1,045                               | 1,015        |
| Balance at 31 <sup>st</sup> December                                                              | <u>432</u>      | <u>859</u>                              | <u>1,252</u>                        | <u>2,543</u> |

Of which:

|                                            |            |            |              |              |
|--------------------------------------------|------------|------------|--------------|--------------|
| For advance to customers at amortised cost | 431        | 855        | 1,061        | 2,347        |
| For related accrued interest receivable    | 1          | 4          | 191          | 196          |
|                                            | <u>432</u> | <u>859</u> | <u>1,252</u> | <u>2,543</u> |

|                                                                                                         | 30/6/2019       |                                         |                                     |            |
|---------------------------------------------------------------------------------------------------------|-----------------|-----------------------------------------|-------------------------------------|------------|
|                                                                                                         | 12-month<br>ECL | Lifetime ECL<br>not credit-<br>impaired | Lifetime ECL<br>credit-<br>impaired | Total      |
|                                                                                                         | HK\$ Mn         | HK\$ Mn                                 | HK\$ Mn                             | HK\$ Mn    |
| <b>Debt investment securities</b>                                                                       |                 |                                         |                                     |            |
| Balance at 1 <sup>st</sup> January                                                                      | 354             | 7                                       | -                                   | 361        |
| Transfer to 12-month ECL                                                                                | -               | -                                       | -                                   | -          |
| Transfer to lifetime ECL not credit-<br>impaired                                                        | -               | -                                       | -                                   | -          |
| Transfer to lifetime ECL credit-impaired                                                                | -               | -                                       | -                                   | -          |
| New financial assets originated or<br>purchased, assets derecognised,<br>repayments and further lending | 27              | 1                                       | -                                   | 28         |
| Write-offs                                                                                              | -               | -                                       | -                                   | -          |
| Changes in models                                                                                       | -               | -                                       | -                                   | -          |
| Net remeasurement of impairment<br>allowances (including exchange<br>adjustments)                       | (70)            | (2)                                     | -                                   | (72)       |
| Balance at 30 <sup>th</sup> June                                                                        | <u>311</u>      | <u>6</u>                                | <u>-</u>                            | <u>317</u> |
| Of which:                                                                                               |                 |                                         |                                     |            |
| For debt investment securities at<br>amortised cost                                                     | 74              | 2                                       | -                                   | 76         |
| For related accrued interest receivable                                                                 | -               | -                                       | -                                   | -          |
|                                                                                                         | <u>74</u>       | <u>2</u>                                | <u>-</u>                            | <u>76</u>  |
| For debt investment securities at<br>FVOCI                                                              | 235             | 4                                       | -                                   | 239        |
| For related accrued interest receivable                                                                 | 2               | -                                       | -                                   | 2          |
|                                                                                                         | <u>237</u>      | <u>4</u>                                | <u>-</u>                            | <u>241</u> |

|                                                                                                         | 31/12/2018      |                                         |                                     |            |
|---------------------------------------------------------------------------------------------------------|-----------------|-----------------------------------------|-------------------------------------|------------|
|                                                                                                         | 12-month<br>ECL | Lifetime ECL<br>not credit-<br>impaired | Lifetime ECL<br>credit-<br>impaired | Total      |
|                                                                                                         | HK\$ Mn         | HK\$ Mn                                 | HK\$ Mn                             | HK\$ Mn    |
| <b>Debt investment securities</b>                                                                       |                 |                                         |                                     |            |
| Balance at 1 <sup>st</sup> January                                                                      | 277             | 13                                      | -                                   | 290        |
| Transfer to 12-month ECL                                                                                | -               | -                                       | -                                   | -          |
| Transfer to lifetime ECL not credit-<br>impaired                                                        | -               | -                                       | -                                   | -          |
| Transfer to lifetime ECL credit-<br>impaired                                                            | -               | -                                       | -                                   | -          |
| New financial assets originated or<br>purchased, assets derecognised,<br>repayments and further lending | 52              | (2)                                     | -                                   | 50         |
| Write-offs                                                                                              | -               | -                                       | -                                   | -          |
| Changes in models                                                                                       | 61              | (1)                                     | -                                   | 60         |
| Net remeasurement of impairment<br>allowances (including exchange<br>adjustments)                       | (36)            | (3)                                     | -                                   | (39)       |
| Balance at 31 <sup>st</sup> December                                                                    | <u>354</u>      | <u>7</u>                                | <u>-</u>                            | <u>361</u> |
| Of which:                                                                                               |                 |                                         |                                     |            |
| For debt investment securities at<br>amortised cost                                                     | 93              | 1                                       | -                                   | 94         |
| For related accrued interest<br>receivable                                                              | 1               | -                                       | -                                   | 1          |
|                                                                                                         | <u>94</u>       | <u>1</u>                                | <u>-</u>                            | <u>95</u>  |
| For debt investment securities at<br>FVOCI                                                              | 257             | 6                                       | -                                   | 263        |
| For related accrued interest<br>receivable                                                              | 3               | -                                       | -                                   | 3          |
|                                                                                                         | <u>260</u>      | <u>6</u>                                | <u>-</u>                            | <u>266</u> |

The impairment allowances of debt securities at FVOCI is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI is their fair value.

|                                                                                                         | 30/6/2019       |                                         |                                     |            |
|---------------------------------------------------------------------------------------------------------|-----------------|-----------------------------------------|-------------------------------------|------------|
|                                                                                                         | 12-month<br>ECL | Lifetime ECL<br>not credit-<br>impaired | Lifetime ECL<br>credit-<br>impaired | Total      |
|                                                                                                         | HK\$ Mn         | HK\$ Mn                                 | HK\$ Mn                             | HK\$ Mn    |
| <b>Others</b>                                                                                           |                 |                                         |                                     |            |
| Balance at 1 <sup>st</sup> January                                                                      | 114             | 47                                      | 68                                  | 229        |
| Transfer to 12-month ECL                                                                                | 3               | (3)                                     | -                                   | -          |
| Transfer to lifetime ECL not credit-<br>impaired                                                        | (1)             | 1                                       | -                                   | -          |
| Transfer to lifetime ECL credit-<br>impaired                                                            | (1)             | -                                       | 1                                   | -          |
| New financial assets originated or<br>purchased, assets derecognised,<br>repayments and further lending | 18              | 3                                       | 83                                  | 104        |
| Write-offs                                                                                              | -               | -                                       | (1)                                 | (1)        |
| Changes in models                                                                                       | -               | -                                       | -                                   | -          |
| Net remeasurement of impairment<br>allowances (including exchange<br>adjustments)                       | (21)            | 5                                       | 4                                   | (12)       |
| Balance at 30 <sup>th</sup> June                                                                        | <u>112</u>      | <u>53</u>                               | <u>155</u>                          | <u>320</u> |
| Of which:                                                                                               |                 |                                         |                                     |            |
| For trade bills at FVOCI                                                                                | 4               | 3                                       | -                                   | 7          |
| For related accrued interest<br>receivable                                                              | -               | -                                       | -                                   | -          |
|                                                                                                         | <u>4</u>        | <u>3</u>                                | <u>-</u>                            | <u>7</u>   |
| For trade bills at amortised cost                                                                       | -               | -                                       | -                                   | -          |
| For related accrued interest<br>receivable                                                              | -               | -                                       | -                                   | -          |
|                                                                                                         | <u>-</u>        | <u>-</u>                                | <u>-</u>                            | <u>-</u>   |
| For placements with banks and<br>financial institutions                                                 | 8               | -                                       | -                                   | 8          |
| For related accrued interest<br>receivable                                                              | -               | -                                       | -                                   | -          |
|                                                                                                         | <u>8</u>        | <u>-</u>                                | <u>-</u>                            | <u>8</u>   |
| For cash and balances with banks<br>and financial institutions                                          | 8               | -                                       | -                                   | 8          |
| For related accrued interest<br>receivable                                                              | -               | -                                       | -                                   | -          |
|                                                                                                         | <u>8</u>        | <u>-</u>                                | <u>-</u>                            | <u>8</u>   |
| For loan commitments and financial<br>guarantee contracts                                               | <u>55</u>       | <u>45</u>                               | <u>-</u>                            | <u>100</u> |
| For account receivables and other<br>accounts                                                           | <u>37</u>       | <u>5</u>                                | <u>155</u>                          | <u>197</u> |

|                                                                                                         | 31/12/2018      |                                         |                                     |            |
|---------------------------------------------------------------------------------------------------------|-----------------|-----------------------------------------|-------------------------------------|------------|
|                                                                                                         | 12-month<br>ECL | Lifetime ECL<br>not credit-<br>impaired | Lifetime ECL<br>credit-<br>impaired | Total      |
|                                                                                                         | HK\$ Mn         | HK\$ Mn                                 | HK\$ Mn                             | HK\$ Mn    |
| <b>Others</b>                                                                                           |                 |                                         |                                     |            |
| Balance at 1 <sup>st</sup> January                                                                      | 220             | 54                                      | 1                                   | 275        |
| Transfer to 12-month ECL                                                                                | 5               | (5)                                     | -                                   | -          |
| Transfer to lifetime ECL not credit-<br>impaired                                                        | (3)             | 3                                       | -                                   | -          |
| Transfer to lifetime ECL credit-<br>impaired                                                            | -               | -                                       | -                                   | -          |
| New financial assets originated or<br>purchased, assets derecognised,<br>repayments and further lending | 1               | (30)                                    | -                                   | (29)       |
| Write-offs                                                                                              | -               | -                                       | -                                   | -          |
| Changes in models                                                                                       | (76)            | (2)                                     | -                                   | (78)       |
| Net remeasurement of impairment<br>allowances (including exchange<br>adjustments)                       | (33)            | 27                                      | 67                                  | 61         |
| Balance at 31 <sup>st</sup> December                                                                    | <u>114</u>      | <u>47</u>                               | <u>68</u>                           | <u>229</u> |
| Of which:                                                                                               |                 |                                         |                                     |            |
| For trade bills at FVOCI                                                                                | 5               | -                                       | -                                   | 5          |
| For related accrued interest<br>receivable                                                              | <u>-</u>        | <u>-</u>                                | <u>-</u>                            | <u>-</u>   |
|                                                                                                         | <u>5</u>        | <u>-</u>                                | <u>-</u>                            | <u>5</u>   |
| For trade bills at amortised cost                                                                       | 3               | -                                       | 1                                   | 4          |
| For related accrued interest<br>receivable                                                              | <u>-</u>        | <u>-</u>                                | <u>-</u>                            | <u>-</u>   |
|                                                                                                         | <u>3</u>        | <u>-</u>                                | <u>1</u>                            | <u>4</u>   |
| For placements with banks and<br>financial institutions                                                 | 10              | -                                       | -                                   | 10         |
| For related accrued interest<br>receivable                                                              | <u>-</u>        | <u>-</u>                                | <u>-</u>                            | <u>-</u>   |
|                                                                                                         | <u>10</u>       | <u>-</u>                                | <u>-</u>                            | <u>10</u>  |
| For cash and balances with banks<br>and financial institutions                                          | 5               | -                                       | -                                   | 5          |
| For related accrued interest<br>receivable                                                              | <u>-</u>        | <u>-</u>                                | <u>-</u>                            | <u>-</u>   |
|                                                                                                         | <u>5</u>        | <u>-</u>                                | <u>-</u>                            | <u>5</u>   |
| For loan commitments and financial<br>guarantee contracts                                               | <u>66</u>       | <u>45</u>                               | <u>-</u>                            | <u>111</u> |
| For account receivables and other<br>accounts                                                           | <u>25</u>       | <u>2</u>                                | <u>67</u>                           | <u>94</u>  |

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

### 38. Off-balance Sheet Exposures

(a) The following is a summary of each significant class of off-balance sheet exposures:

|                                                                       | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|-----------------------------------------------------------------------|----------------------|-----------------------|
| Contractual amounts of contingent liabilities                         |                      |                       |
| Direct credit substitutes                                             | 13,452               | 14,629                |
| Transaction-related contingencies                                     | 818                  | 883                   |
| Trade-related contingencies                                           | 2,380                | 2,997                 |
|                                                                       | <u>16,650</u>        | <u>18,509</u>         |
| Contractual amounts of commitments                                    |                      |                       |
| Commitments that are unconditionally cancellable without prior notice | 155,866              | 141,668               |
| Other commitments with an original maturity                           |                      |                       |
| - up to 1 year                                                        | 9,364                | 9,332                 |
| - over 1 year                                                         | 29,441               | 26,710                |
|                                                                       | <u>194,671</u>       | <u>177,710</u>        |
| Total                                                                 | <u>211,321</u>       | <u>196,219</u>        |
| Credit risk weighted amounts                                          | <u>23,899</u>        | <u>23,531</u>         |
| Fair value of derivatives                                             |                      |                       |
| Assets                                                                |                      |                       |
| Exchange rate contracts                                               | 3,112                | 6,783                 |
| Interest rate contracts                                               | 2,169                | 2,919                 |
| Equity contracts                                                      | 856                  | 507                   |
| Others                                                                | 4                    | 2                     |
|                                                                       | <u>6,141</u>         | <u>10,211</u>         |
| Liabilities                                                           |                      |                       |
| Exchange rate contracts                                               | 3,510                | 6,191                 |
| Interest rate contracts                                               | 3,739                | 2,816                 |
| Equity contracts                                                      | 877                  | 472                   |
| Others                                                                | 13                   | 17                    |
|                                                                       | <u>8,139</u>         | <u>9,496</u>          |
| Notional amounts of derivatives                                       |                      |                       |
| Exchange rate contracts                                               | 670,845              | 723,848               |
| Interest rate contracts                                               | 348,841              | 411,325               |
| Equity contracts                                                      | 13,089               | 11,880                |
| Others                                                                | 157                  | 266                   |
|                                                                       | <u>1,032,932</u>     | <u>1,147,319</u>      |
| Credit risk weighted amounts*                                         |                      |                       |
| Exchange rate contracts                                               | 2,359                | 2,843                 |
| Interest rate contracts                                               | 322                  | 414                   |
| Equity contracts                                                      | 68                   | 122                   |
| Others                                                                | 456                  | 363                   |
|                                                                       | <u>3,205</u>         | <u>3,742</u>          |

The fair value and credit risk weighted amounts of the off-balance sheet exposures do not take into account the effects of bilateral netting arrangements.

\* The Bank adopted the Foundation Internal Ratings Based approach according to Capital Rules for calculating the credit risk weighted amount as at 30<sup>th</sup> June, 2019 and 31<sup>st</sup> December, 2018.

(b) Capital commitments

Capital commitments on purchase of property, plant and equipment outstanding as at 30<sup>th</sup> June and 31<sup>st</sup> December and not provided for in the accounts were as follows:

|                                               | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|-----------------------------------------------|----------------------|-----------------------|
| Expenditure authorised and contracted for     | 316                  | 284                   |
| Expenditure authorised but not contracted for | 185                  | 161                   |
|                                               | <u>501</u>           | <u>445</u>            |

(c) 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.

### 39. 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:

|                              | 30/6/2019<br>HK\$ Mn | 30/6/2018<br>HK\$ Mn |
|------------------------------|----------------------|----------------------|
| Short-term employee benefits | 71                   | 76                   |
| Post-employment benefits     | 3                    | 4                    |
| Equity compensation benefits | 12                   | 17                   |
|                              | <u>86</u>            | <u>97</u>            |

- (b) The Group maintains certain retirement benefit schemes for its staff. In the six months ended 30<sup>th</sup> June, 2019, the total amount of contributions the Group made to the schemes was HK\$91 million (six months ended 30<sup>th</sup> June, 2018: HK\$82 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 30<sup>th</sup> June, 2019, outstanding balances of amounts due from and due to them at 30<sup>th</sup> June, 2019 and maximum outstanding balance of amounts due from and due to them for the six months ended 30<sup>th</sup> June, 2019 are aggregated as follows:

|                          | Key management personnel |           | Associates |           | Shareholders with significant influence |           |
|--------------------------|--------------------------|-----------|------------|-----------|-----------------------------------------|-----------|
|                          | 30/6/2019                | 30/6/2018 | 30/6/2019  | 30/6/2018 | 30/6/2019                               | 30/6/2018 |
|                          | HK\$ Mn                  | HK\$ Mn   | HK\$ Mn    | HK\$ Mn   | HK\$ Mn                                 | HK\$ Mn   |
| Interest income          | 28                       | 12        | 24         | 16        | 2                                       | 3         |
| Interest expense         | 25                       | 14        | 1          | 2         | 8                                       | 14        |
| Amounts due from         | 2,347                    | 3,323     | 695        | 1,117     | 2,458                                   | 889       |
| Amounts due to           | 2,540                    | 2,569     | 49         | 115       | 972                                     | 2,036     |
| Maximum amounts due from | 3,730                    | 3,739     | 1,803      | 1,781     | 5,391                                   | 5,736     |
| Maximum amounts due to   | 4,698                    | 4,809     | 555        | 723       | 2,542                                   | 3,739     |
| Committed facilities to  | 1,370                    | 629       | 1,313      | 1,422     | -                                       | -         |

#### 40. 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 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 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.

#### 41. Comparative Figures

Certain 2018 comparative figures have been restated to conform to current period's presentation. Please refer to Note 21(b) and Note 29 for the effect of the restatement.

#### 42. 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 21<sup>st</sup> August, 2019.

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 issued by the HKMA.

#### 43. Assets Held for Sale

On 29<sup>th</sup> November, 2017, the Bank and its wholly-owned subsidiary, Credit Gain Finance Company Limited entered into an equity transfer agreement with China Financial Services Holdings Limited for the sale and purchase of all equity interests in Shenzhen Credit Gain Finance Company Limited ("Shenzhen Credit Gain"), Chongqing Liangjiang New Area Credit Gain Finance Company ("Chongqing Credit Gain") and Chongqing Dongrong Business Consultancy Company Limited ("Chongqing Dongrong"). The disposal of Shenzhen Credit Gain was completed on 12<sup>th</sup> April, 2019. Up to the reporting date, the completion of the disposals of Chongqing Credit Gain and Chongqing Dongrong is still subject to the requisite Chinese regulatory approvals. Chongqing Credit Gain and Chongqing Dongrong's assets and liabilities as at 30<sup>th</sup> June, 2019 and Shenzhen Credit Gain, Chongqing Credit Gain and Chongqing Dongrong's assets and liabilities as at 31<sup>st</sup> December, 2018 are presented separately as assets held for sale and liabilities held for sale respectively in the consolidated financial statements.

On 29<sup>th</sup> October, 2018, the Bank entered into a sale and purchase agreement with The Bank of Yokohama, Ltd. ("BOY") for the sale of 30% of the issued shares of P.T. Bank Resona Perdania ("BRP"), held via a special purpose vehicle, East Asia Indonesian Holdings Limited, to BOY (the "Disposal"). The investment in BRP is classified and presented as assets held for sale in the consolidated financial statements as at 30<sup>th</sup> June, 2019 and 31<sup>st</sup> December, 2018. All the conditions precedent to completion of the Disposal have been satisfied and the Disposal was completed on 24<sup>th</sup> July, 2019.

The assets and liabilities of the disposal groups held for sale are summarised below:

|                                                               | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|---------------------------------------------------------------|----------------------|-----------------------|
| <b>ASSETS</b>                                                 |                      |                       |
| Cash and balances with banks and other financial institutions | 2                    | 6                     |
| Loans and advances to customers                               | 89                   | 228                   |
| Gross loans and advances to customers                         | 89                   | 230                   |
| Less: Impairment allowances                                   |                      |                       |
| - Stage 1                                                     | -                    | (1)                   |
| - Stage 2                                                     | -                    | -                     |
| - Stage 3                                                     | -                    | (1)                   |
| Fixed assets                                                  | 3                    | 8                     |
| - Investment properties                                       | -                    | -                     |
| - Other properties and equipment                              | 3                    | 8                     |
| Deferred tax assets                                           | 5                    | 18                    |
| Other assets                                                  | 1                    | 8                     |
| Assets held for sale                                          | <u>100</u>           | <u>268</u>            |
| <b>LIABILITIES</b>                                            |                      |                       |
| Other liabilities                                             | 3                    | 7                     |
| Liabilities held for sale                                     | <u>3</u>             | <u>7</u>              |

The assets held for sale and liabilities held for sale are summarised below:

|                                            | 30/6/2019<br>HK\$ Mn | 31/12/2018<br>HK\$ Mn |
|--------------------------------------------|----------------------|-----------------------|
| <b>Assets held for sale (Note 24)</b>      |                      |                       |
| Disposal groups held for sale              | 100                  | 268                   |
| Other properties                           | 39                   | 57                    |
| Investment in associate                    | 368                  | 363                   |
|                                            | <u>507</u>           | <u>688</u>            |
| <b>Liabilities held for sale (Note 27)</b> |                      |                       |
| Disposal groups held for sale              | <u>3</u>             | <u>7</u>              |

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

|                                                             | 30/6/2019<br>HK\$ Mn | 30/6/2018<br>HK\$ Mn |
|-------------------------------------------------------------|----------------------|----------------------|
| Cumulative expense recognised in other comprehensive income | <u>(41)</u>          | <u>(43)</u>          |

## **SUPPLEMENTARY FINANCIAL INFORMATION**

### **A. Capital Adequacy**

|                                    | <u>30/6/2019</u> | <u>31/12/2018</u> |
|------------------------------------|------------------|-------------------|
|                                    | HK\$ Mn          | HK\$ Mn           |
| Capital base                       |                  |                   |
| - Common Equity Tier 1 capital     | 73,715           | 74,513            |
| - Additional Tier 1 capital        | 9,958            | 10,312            |
| - Total Tier 1 capital             | <u>83,673</u>    | <u>84,825</u>     |
| - Tier 2 capital                   | 14,212           | 14,202            |
| - Total capital                    | <u>97,885</u>    | <u>99,027</u>     |
| Risk weighted assets by risk type  |                  |                   |
| - Credit risk                      | 434,664          | 428,383           |
| - Market risk                      | 17,619           | 18,671            |
| - Operational risk                 | <u>33,589</u>    | <u>31,934</u>     |
|                                    | 485,872          | 478,988           |
| Less: Deductions                   | <u>(3,442)</u>   | <u>(3,274)</u>    |
|                                    | <u>482,430</u>   | <u>475,714</u>    |
|                                    | <u>30/6/2019</u> | <u>31/12/2018</u> |
|                                    | %                | %                 |
| Common Equity Tier 1 capital ratio | 15.3             | 15.7              |
| Tier 1 capital ratio               | 17.3             | 17.8              |
| Total capital ratio                | 20.3             | 20.8              |

Capital adequacy ratios are compiled in accordance with the Capital Rules issued by the HKMA. In accordance with the Capital Rules, the Bank has adopted the foundation internal ratings-based approach for the calculation of the risk-weighted assets for credit risk and the internal models approach for the calculation of market risk and standardised approach for operational risk.

The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. Subsidiaries included in consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with Section 3C of the Capital Rules. Subsidiaries not included in consolidation for regulatory purposes are non-financial companies and the securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Capital Rules and the Banking Ordinance. The Bank's shareholdings in these subsidiaries are deducted from its Tier 1 capital and Tier 2 capital subject to the thresholds as determined in accordance with Part 3 of the Capital Rules.

The subsidiaries that are included in consolidation for regulatory purposes are listed in Note 40 of the Interim Report.

The Group operates subsidiaries in a number of countries and territories where capital is governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the Group.

The information relating to the Group's regulatory capital and other disclosures can be found on the Bank's website, accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at [www.hkbea.com](http://www.hkbea.com) or at the following direct link: [www.hkbea.com/regulatory\\_disclosures](http://www.hkbea.com/regulatory_disclosures).

## B. Leverage Ratio

|                      | 30/6/2019 | 31/12/2018<br>Restated |
|----------------------|-----------|------------------------|
|                      | HK\$ Mn   | HK\$ Mn                |
| Total Tier 1 capital | 83,673    | 84,825                 |
| Exposure measure     | 895,940   | 862,745                |
|                      | 30/6/2019 | 31/12/2018             |
|                      | %         | %                      |
| Leverage ratio       | 9.3       | 9.8                    |

The disclosure on leverage ratio has been effective since 31<sup>st</sup> March, 2015 and is computed on the same consolidated basis as specified in a notice from the HKMA in accordance with section 3C of the Capital Rules. The relevant disclosures can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at [www.hkbea.com](http://www.hkbea.com) or at the following direct link: [www.hkbea.com/regulatory\\_disclosures](http://www.hkbea.com/regulatory_disclosures).

## C. Liquidity Position

|                                  | 30/6/2019 | 31/12/2018 |
|----------------------------------|-----------|------------|
|                                  | %         | %          |
| Average liquidity coverage ratio |           |            |
| - First quarter                  | 169.8     | 137.8      |
| - Second quarter                 | 171.7     | 144.8      |
| - Third quarter                  | N/A       | 153.0      |
| - Fourth quarter                 | N/A       | 180.5      |

The liquidity coverage ratio is calculated in accordance with the Banking (Liquidity) Rules effective from 1<sup>st</sup> January, 2015. The information for the regulatory disclosure can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at [www.hkbea.com](http://www.hkbea.com) or at the following direct link: [www.hkbea.com/regulatory\\_disclosures](http://www.hkbea.com/regulatory_disclosures).

The Bank held an amount of HKD-denominated level 1 assets that was not less than 20% of its HKD-denominated total net cash outflows. There is no significant currency mismatch in the Bank's LCR at respective levels of consolidation.

## D. Overdue, Rescheduled and Repossessed Assets

### (a) Overdue and rescheduled advances

|                                                                                         | 30/6/2019 |                                  | 31/12/2018 |                                  |
|-----------------------------------------------------------------------------------------|-----------|----------------------------------|------------|----------------------------------|
|                                                                                         | HK\$ Mn   | % of total advances to customers | HK\$ Mn    | % of total advances to customers |
| Advances to customers overdue for                                                       |           |                                  |            |                                  |
| - 6 months or less but over 3 months                                                    | 452       | 0.1                              | 970        | 0.2                              |
| - 1 year or less but over 6 months                                                      | 648       | 0.1                              | 428        | 0.1                              |
| - Over 1 year                                                                           | 1,735     | 0.4                              | 1,495      | 0.3                              |
|                                                                                         | 2,835     | 0.6                              | 2,893      | 0.6                              |
| Rescheduled advances to customers                                                       | 191       | 0.0                              | 110        | 0.0                              |
| Total overdue and rescheduled advances                                                  | 3,026     | 0.6                              | 3,003      | 0.6                              |
| Covered portion of overdue advances                                                     | 2,084     | 0.4                              | 2,159      | 0.4                              |
| Uncovered portion of overdue advances                                                   | 751       | 0.2                              | 734        | 0.2                              |
| Current market value of collateral held against the covered portion of overdue advances | 4,266     |                                  | 4,273      |                                  |
| Specific provisions made on advances overdue for more than 3 months                     | 1,122     |                                  | 789        |                                  |

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the period-end. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at period-end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

An asset considered as an eligible collateral should generally satisfy the following:

- The market value of the asset is readily determinable or can be reasonably established and verified;
- The asset is marketable and there exists a readily available secondary market for disposing of the asset;
- The Bank's right to repossess the asset is legally enforceable and without impediment; and
- The Bank is able to secure control over the asset if necessary.

The two main types of "Eligible Collateral" are as follows:

- "Eligible Financial Collateral" mainly comprises cash deposits and shares.
- "Eligible Physical Collateral" mainly comprises land and buildings, vehicles and equipment.

When the Bank's clients face financial difficulties and fail to settle their loans, depending on different situations, the Bank usually takes the following actions to recover the debt:

- Debt rescheduling / restructuring
- Enforcement of security
- Legal action
- Recovery via debt collector

(b) Advances to banks

|                                        | 30/6/2019 | 31/12/2018 |
|----------------------------------------|-----------|------------|
|                                        | HK\$ Mn   | HK\$ Mn    |
| Advances to banks overdue for          |           |            |
| - 6 months or less but over 3 months   | -         | -          |
| - 1 year or less but over 6 months     | -         | -          |
| - Over 1 year                          | -         | -          |
|                                        | -         | -          |
| Rescheduled advances to banks          | -         | -          |
| Total overdue and rescheduled advances | -         | -          |

(c) Other overdue and rescheduled assets

|                                            | 30/6/2019        |                 |               |
|--------------------------------------------|------------------|-----------------|---------------|
|                                            | Accrued interest | Debt securities | Other assets* |
|                                            | HK\$ Mn          | HK\$ Mn         | HK\$ Mn       |
| Other assets overdue for                   |                  |                 |               |
| - 6 months or less but over 3 months       | 4                | -               | -             |
| - 1 year or less but over 6 months         | 31               | -               | -             |
| - Over 1 year                              | 320              | -               | -             |
|                                            | 355              | -               | -             |
| Rescheduled assets                         | 1                | -               | -             |
| Total other overdue and rescheduled assets | 356              | -               | -             |

  

|                                            | 31/12/2018       |                 |               |
|--------------------------------------------|------------------|-----------------|---------------|
|                                            | Accrued Interest | Debt securities | Other assets* |
|                                            | HK\$ Mn          | HK\$ Mn         | HK\$ Mn       |
| Other assets overdue for                   |                  |                 |               |
| - 6 months or less but over 3 months       | 19               | -               | -             |
| - 1 year or less but over 6 months         | 8                | -               | -             |
| - Over 1 year                              | 281              | -               | 1             |
|                                            | 308              | -               | 1             |
| Rescheduled assets                         | 1                | -               | -             |
| Total other overdue and rescheduled assets | 309              | -               | 1             |

\* Other assets refer to trade bills and receivables.

(d) Repossessed assets

|                                   | 30/6/2019 | 31/12/2018 |
|-----------------------------------|-----------|------------|
|                                   | HK\$ Mn   | HK\$ Mn    |
| Reposessed land and buildings*    | 208       | 147        |
| Reposessed vehicles and equipment | 1         | -          |
| Reposessed machines               | -         | -          |
| Total reposessed assets           | 209       | 147        |

The amount represents the estimated market value of the reposessed assets as at 30<sup>th</sup> June, 2019 and 31<sup>st</sup> December, 2018.

\* The balance included HK\$19 million (31/12/2018: HK\$58 million) relating to properties that were contracted for sale but not yet completed.

**E. Banking Disclosure Statement**

Additional information disclosures for this period which are prepared in accordance with the Banking (Disclosure) Rules and disclosure templates issued by the Hong Kong Monetary Authority can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at [www.hkbea.com](http://www.hkbea.com) or at the following direct link: [www.hkbea.com/regulatory\\_disclosures](http://www.hkbea.com/regulatory_disclosures).

## **INTERIM DIVIDEND**

The Board is pleased to declare an interim dividend of HK\$0.11 per share (the “2019 Interim Dividend”) (2018 Interim Dividend: HK\$0.51 per share) for the six months ended 30<sup>th</sup> June, 2019. The 2019 Interim Dividend will be paid in cash with an option to receive new, fully paid shares in lieu of cash (the “Scrip Dividend Scheme”), to shareholders whose names appear on the Register of Members of the Bank at the close of business on Tuesday, 10<sup>th</sup> September, 2019. For the purpose of calculating the number of new Shares to be allotted under the Scrip Dividend Scheme, the market value of the new Shares means 95% of the average closing price of the Shares on the Stock Exchange from Thursday, 5<sup>th</sup> September, 2019 (being the first day that the Shares were traded ex-dividend) to Wednesday, 11<sup>th</sup> September, 2019 (both days inclusive). Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Tuesday, 10<sup>th</sup> September, 2019. The Scrip Dividend Scheme is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Friday, 4<sup>th</sup> October, 2019.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Bank will be closed on Monday, 9<sup>th</sup> September, 2019 and Tuesday, 10<sup>th</sup> September, 2019. In order to qualify for the 2019 Interim Dividend, all transfer documents should be lodged for registration with Tricor Standard Limited, Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, by 4:00 p.m. on Friday, 6<sup>th</sup> September, 2019.

## **FINANCIAL REVIEW**

### **Financial Performance**

For the first six months of 2019, the Group earned a profit attributable to owners of the parent of HK\$1,000 million, representing a decrease of HK\$2,992 million or 74.9%, compared with the HK\$3,992 million earned in the same period in 2018. Pre-provision operating profit of the Group was strong, growing by 19.5% year-on-year. The drop in attributable profit was mainly due to a significant increase in impairment losses in Mainland China.

Basic earnings per share were HK\$0.22 in the first half of 2019, compared to HK\$1.30 for the corresponding period in 2018.

Annualised return on average assets and annualised return on average equity stood at 0.1% and 1.4%, respectively, compared to 0.9% and 8.0%, respectively, in the first half of 2018.

Net interest income for the Group increased by HK\$1,156 million, or 18.5%, to HK\$7,406 million, with net interest margin rising from 1.70% to 1.90% and average interest-bearing assets growing by 6.4%.

Net fee and commission income rose by HK\$9 million, or 0.7%, to HK\$1,371 million. Commission income from credit cards, loans, overdrafts and guarantees, trade finance and the sale of third-party insurance policies grew, while commission income from securities and brokerage, investment products, other retail banking and financial consultancy decreased.

Taken together, net trading and hedging results and net results from financial instruments designated/mandatory at fair value through profit or loss increased by HK\$132 million to HK\$562 million. Overall, non-interest income grew by 18.4% to HK\$2,696 million. Operating income increased by 18.5% to HK\$10,102 million.

Total operating expenses rose by 17.5% to HK\$4,918 million. The rise was mainly due to expenses incurred for new business initiatives and partnerships in China (including credit card expenses and internet platform charges). Given that operating income rose at a higher rate than expenses, the cost-to-income ratio improved from 49.1% in the first half of 2018 to 48.7% in the first half of 2019.

Operating profit before impairment losses stood at HK\$5,184 million, an increase of HK\$844 million, or 19.5%, when compared with the corresponding period in 2018.

As advised in the profit-warning announcement issued on 13<sup>th</sup> June, 2019, four legacy loan assets in Mainland China with a nominal value of approximately HK\$6.2 billion have been downgraded, after commercial property market conditions weakened in non-tier-1 cities on the Mainland during the first half of the year. Subsequent to the profit warning, certain legacy loan assets were disposed of to third parties.

Due largely to these downgrades, the net charge of impairment losses on financial assets for the Group rose from HK\$282 million in the first half of 2018 to HK\$5,063 million in the first half of 2019. As a result, the Group's impaired loan ratio rose from 0.70% at the end of December 2018 to 1.63% at the end of June 2019. The impaired loan ratio for Hong Kong operations improved from 0.29% to 0.26%, while that for Mainland China operations rose from 1.73% to 4.89%.

It shall be noted that if the disposal of certain legacy loan assets subsequent to the end of June is also incorporated in the calculation, the Group's impaired loan ratio would be 1.00% while that for Mainland China operations would be 2.72%.

Operating profit after impairment losses amounted to HK\$121 million, a decrease of HK\$3,936 million, or 97.0%.

Net profit on the sale of financial assets measured at fair value through other comprehensive income increased by 111.3% to HK\$104 million.

Net profit on sale of assets held for sale increased by HK\$72 million, or 694.7%, mainly due to a profit of HK\$105 million on disposal of several properties in Hong Kong in 2019.

Valuation gains on investment properties decreased to HK\$18 million.

The Group shared after-tax profits from associates of HK\$328 million, an increase of HK\$47 million, or 16.8% compared to the same period in 2018.

After accounting for income taxes, profit after taxation fell to HK\$1,038 million, a decrease of 74.2% compared to the HK\$4,019 million earned in the first half of 2018.

## **Financial Position**

Total consolidated assets of the Group stood at HK\$876,778 million at the end of June 2019, an increase of 4.4% compared to HK\$839,451 million at the end of 2018.

Gross advances to customers rose by 2.1% to HK\$511,281 million, while trade bills negotiated declined by 12.4% to HK\$12,826 million.

Total equity attributable to owners of the parent increased to HK\$93,255 million, a rise of 1.6%, mainly due to the net profit of HK\$1,000 million earned during the first six months of 2019.

Total deposits from customers increased by 1.4% to HK\$582,105 million. Of the total, demand deposits and current account balances decreased by HK\$9,161 million, or 12.7%; savings deposits increased by HK\$1,258 million, or 1.0%; and time deposits increased by HK\$15,894 million, or 4.3%. Total deposit funds, comprising deposits from customers and all certificates of deposit issued, increased by 2.1% to HK\$646,008 million.

The loan-to-deposit ratio stood at 79.1% at the end of June 2019, compared to 79.1% at the end of 2018.

As at 30<sup>th</sup> June, 2019, the total capital ratio, tier 1 ratio, and common equity tier 1 ratio were 20.3%, 17.3%, and 15.3%, respectively. The average liquidity coverage ratio for the quarter ended 30<sup>th</sup> June, 2019 was 171.7%, which was well above the statutory minimum of 100% for the year 2019.

## **Appointment of Co-Chief Executives**

The Board of Directors approved the appointment of Mr. Adrian David LI Man-kiu, Executive Director & Deputy Chief Executive, and Mr. Brian David LI Man-bun, Executive Director & Deputy Chief Executive, as Co-Chief Executives of the Bank, with effect from 1<sup>st</sup> July, 2019.

Mr. Adrian David LI Man-kiu is responsible for Hong Kong business, while Mr. Brian David LI Man-bun leads China and International business. Together, they make a formidable team, and under their leadership BEA will continue to evolve and innovate to ensure that the Bank meets the needs of its customers.

## **BUSINESS REVIEW**

Global economic conditions weakened slightly in the first half of 2019, leading the US Federal Reserve to take a more dovish view of the future of interest rates. International trade grew at the slowest pace since the financial crisis of 2008. Meanwhile, the sudden escalation of the US-China trade dispute in May 2019 dashed optimism that a new trade deal was imminent and led to a fresh bout of uncertainty about the prospects for global growth.

Hong Kong was impacted by this uncertainty, with the economy growing by just 0.6% in the first half of 2019 as both retail sales and exports weakened. Equity markets underperformed, but residential property prices rose by 9.5% for the first six months of 2019 as unemployment remained stable at a 20-year low of 2.8% and housing supply remains tight.

Going forward, the performance of the Hong Kong economy could be affected by the recent social unrest. The tense atmosphere is likely to weigh on consumer and business confidence, and on in-bound tourism, if there is no resolution soon.

Given the external and domestic uncertainties, the performance of the Hong Kong economy is likely to be constrained through the end of 2019. Unemployment could rise as economic sentiment turns weaker. Meanwhile, the current high property price may be vulnerable to a correction. Hong Kong's gross domestic product is forecast to grow by 0.5-1.0% for 2019 as a whole, while the inflation rate will soften to 2.2%.

On the Mainland, the export sector grew by a weak 0.1% in the first six months of 2019 as the US-China trade dispute forced a scramble among US importers to find alternative suppliers beyond the Mainland. The escalation of US-China tensions adversely affected business and consumer confidence, leading to lower growth in retail sales on the Mainland – retail sales rose by 8.4% in the first six months of 2019, down from 9% for 2018 as a whole. In an attempt to mitigate the impact of the worsening sentiment, the Central Government has launched a series of fiscal and monetary stimulus measures. Since early 2018, the People's Bank of China has cut the required reserve ratio for banks six times. The government also cut taxes for both individuals and corporations.

Looking ahead, the Mainland economy is expected to experience further weakness through the remainder of the year. If the trade dispute cannot be resolved, China's exports to the US will come under renewed pressure. Slowing growth in Asia and Europe will also impact demand, and consumer sentiment is expected to weaken further. Economic growth is expected to decelerate to around 6.2% for 2019. Inflation will remain subdued, at about 2.2%.

## **Business – Hong Kong**

In the six months to 30<sup>th</sup> June, 2019, the aggregate value of BEA's customer loans and trade bills in Hong Kong rose by 3.5%. Customer loans grew by 4.9%, while total deposits increased by 2.6%. Debt investments increased by 10.8%.

## **Corporate & Commercial Banking**

Corporate Banking Division was restructured and expanded at the start of 2019 to position the Bank to better cater to the needs of a diverse range of clients. The results so far have been positive.

Operating income increased by 2.5% year-on-year, with growth in both net interest income and net fee and commission income. Asset quality remained sound and the impaired loan ratio continued to improve.

Lending to large corporates rose, and two new relationship manager teams were formed to serve mid-cap firms, driving overall growth of 4.3% in the corporate loan book compared to December 2018. Meanwhile, a new department, the Enterprise Banking Department, was established to provide dedicated support to small and medium-sized enterprises.

Improved segmentation has already resulted in new business, with a significant upturn in new accounts opened. At the end of June 2019, corporate CASA balances were 4.9% higher than at the end of December. The Bank approved more loans under the government's SME guarantee schemes during the first six months this year than were granted for the whole of 2018.

Going forward, the Corporate Banking Division will continue to streamline account opening procedures, revitalise trade finance business and enhance transaction banking capabilities, in order to position BEA as a total corporate solutions provider.

## **Retail Banking**

The Bank's retail operations continued to perform well in the first half of the year. Net interest income recorded double-digit growth, while net fee and commission income also rose. Operating income increased by 11.9% year-on-year.

Following a weak second half in 2018, retail sales of investment products picked up at the start of the year, before market sentiment dipped in the second quarter. Overall, sales declined year-on-year from a high base in the first half of 2018.

Sales of life insurance products recorded strong growth, as customers responded enthusiastically to short-term products with guaranteed returns.

Efforts to expand the Bank's customer base in key segments brought good results. The number of new SupremeGold accounts, the Bank's all-in-one account for affluent customers, rose by 20% year-on-year. Intake of new accounts from Mainland clients more than doubled following the establishment of 11 cross-border financial centres.

Enhancements are being made to the Bank's mobile app to improve customer onboarding. Mobile remote account opening will be launched later this year. With the second phase of the HKMA's Open Application Programming Interface initiative, this will further strengthen the Bank's acquisition capability, in particular through collaboration with external partners.

The Bank is also improving its retail wealth offering, both at branches and via digital channels, to develop new sources of fee income. The branch salesforce was increased by 18% during the first half to boost product sales. Further, the BEA App has been refined to enable customers to complete the risk assessment questionnaire and trade linked deposits and unit trusts, shortening the sales process and making investment products more accessible.

## **Wealth Management**

Private Banking benefitted from an upturn in investor sentiment in the first six months of 2019. Investment revenue rebounded significantly compared to the second half of 2018, although it did not return to the high levels seen during the first half of last year.

Net fee and commission income was maintained at a similar level year-on-year. Meanwhile, net interest income fell as loan margins narrowed due to keen competition. Overall, operating income declined by 9.6%.

At the end of June, assets under management were up by 9.5% and loans by 15.1% compared to end-December 2018, driven mainly by new clients from the Greater Bay Area. The GBA now accounts for around 30% of all AUM from Mainland China, up from 20% one year ago.

Looking ahead, Private Banking remains China-focussed and has targeted the GBA for business expansion. Meanwhile, the investment consultant team has been expanded to better serve internal referrals, particularly from Corporate Banking.

## **Insurance & MPF Services**

BEA Life Limited, the Bank's wholly-owned life insurance arm, recorded significant growth in new premium income year-on-year. The increase came mainly from short-term products with guaranteed returns, which were welcomed by customers seeking stability in the volatile investment environment. The Bank's commission income from BEA Life products grew by 52.2%.

In November 2018, BEA Life launched its first online life insurance product via the BEA website. The product will be available in the BEA app in the third quarter this year. More products will be launched via online and mobile channels soon to expand BEA Life's digital offering.

Despite a competitive market environment, Blue Cross (Asia-Pacific) Insurance Limited, BEA's wholly-owned general insurance arm, recorded stable premium income year-on-year with underwriting profit achieving double-digit growth.

Blue Cross is strengthening its digital platform to stay at the forefront of insurtech developments. A new mobile application was launched in April this year, featuring a market-first blockchain-enabled medical claims service. To date, there have been more than 25,500 downloads of the new app, with an activation rate of over 50%. The app will be extended to cover travel and other general insurance products in the third quarter.

Total membership in BEA's Mandatory Provident Fund schemes grew to more than 805,000 at the end of June 2019, while AUM increased to HK\$26.5 billion. Following changes to the relevant legislation, BEA launched a tax deductible voluntary contribution account for MPF clients in April 2019. The initial response was encouraging, and online enrolment will be enabled in the third quarter to further drive the take-up rate.

## **Business – Mainland China**

In the first half of 2019, the operating environment in Mainland China remained challenging amid a slowing economy and the US-China trade dispute.

Despite the macro uncertainties, BEA's core China banking operations remained sound. Pre-provision operating profit increased to HK\$1,209 million, up 43.8% year-on-year. Net interest income rose by 50.2% year-on-year to HK\$2,824 million, while NIM further widened by 62 basis points to reach 2.32% at the end of June 2019, compared with 1.70% at the end of 2018. The improvement in NIM is largely attributable to growth in our internet platform co-lending business where the yield is relatively high.

The impact of the weakening Mainland economy is most evident in non-tier-1 cities, with the commercial property sector in these cities particularly vulnerable. Despite the ongoing de-risking of BEA's China portfolio in recent years, the operation remains partially exposed to commercial properties in non-tier-1 cities. As a result, four legacy loan assets were downgraded in the first half of 2019, leading to significant one-off post-tax impairment losses.

Consequently, BEA's China banking operations reported a net loss of HK\$2,846 million in the first half of 2019. The impaired loan ratio rose to 4.89% at the end of June 2019, compared with 1.73% at the end of 2018. The pro-forma non-performing loan ratio after disposal of certain legacy problem loans subsequent to the end of June is about 2.72%. Looking ahead, BEA's China banking operations will continue to exercise caution in extending credit, and will actively manage the impaired loan portfolio.

Total loans to corporates and individuals from BEA's China banking operations amounted to HK\$146,235 million as at the end of June 2019, a decrease of 3.7% year-on-year. Meanwhile, deposits from customers decreased by 6.4% year-on-year to HK\$177,397 million.

BEA's China banking operations continued to implement cost-control measures in the first half of 2019, while investments are being made to pave way for future growth. Operating expenses were HK\$2,106 million for the six-month period, up by 32.2% year-on-year. The increase was mainly due to investments

in new initiatives in connection with the retail business and platform fees paid to our internet partners. Excluding these development costs, operating expenses dropped by 4.4% year-on-year.

BEA's China retail banking transformation programme has delivered some early results. Retail loans grew by 68.4% year-on-year in the first half of the year, supported by consumer finance partnerships with leading internet platform companies.

Going forward, BEA China will further expand its internet consumer finance and credit card businesses through such partnerships. In addition, BEA China's retail banking will further enhance its products and services, in particular in the areas of payments, deposits and wealth management.

On the corporate side, BEA China will continue to de-risk and proactively manage its portfolio. These actions, coupled with further enhancements to product and service capabilities in areas such as transaction banking and investment banking, will help BEA China lay a solid foundation for further growth in fee income and acquire low-cost deposits.

In the first half of 2019, BEA China successfully issued CNY2.5 billion in financial bonds and CNY1.5 billion in Tier-2 capital bonds. Furthermore, the Bank injected additional capital of CNY2 billion into BEA China in June 2019. These measures will serve to support the development and expansion of BEA's China business and further optimise its balance sheet structure.

As at the end of June 2019, BEA China operated 31 branches and 68 sub-branches in 44 cities on the Mainland. In order to further enhance cost efficiency, BEA China will further rationalise its network in the coming three years.

### **Business – International, Macau and Taiwan**

The Bank's overseas operations continued to deliver steady operating results in the first half of 2019.

During the period under review, BEA's overseas branches expanded their loan books prudently. The branches have successfully cultivated quality bilateral lending relationships with existing BEA customers who are seeking outbound investments. They also participated in syndicated loans and club deals, spanning various industries, for large corporates that have strong balance sheets and positive business outlooks. As at 30<sup>th</sup> June, 2019, the aggregate loan book of overseas branches was 1.4% higher than at 31<sup>st</sup> December, 2018.

Pre-provision operating profit decreased by 6.95% year-on-year mainly due to an impact from the implementation of the Hong Kong Financial Reporting Standard 16 Leases (HKFRS 16) on 1<sup>st</sup> January, 2019 and depreciation of Pound Sterling and Singapore Dollar against Hong Kong Dollar. The cost-to-income ratio increased slightly, from 32.7% for the full year 2018 to 34.5% for the first half of 2019, due to increasing compliance costs. The impaired loan ratio slightly rose to 0.54%.

UK and US operations remained the main contributors to the Bank's overseas loan and income growth. Outstanding loan at the two operations combined rose by 4.4% between 31<sup>st</sup> December, 2018 and 30<sup>th</sup> June, 2019, while income rose by 2.2% year-on-year.

The Bank's operations in other parts of Asia – Singapore, Malaysia, Macau and Taiwan – continued to face various headwinds. In response, they have adopted a defensive strategy, taking a cautious approach to new business and exiting accounts with financial deficiencies.

Looking ahead, the Bank will continue to optimise its loan portfolio to balance risk and return. Cost will be managed carefully, so as to minimise the impact of rising risk and compliance expenditure.

### **BEA Union Investment Management Limited**

BEA Union Investment recorded an increase of 19.7% in AUM in the first half of 2019. The growth was due in large part to the company's strong performance in the fixed income sector and success in penetrating both the retail and institutional client segments in China, Europe and the rest of Asia.

In response to the growing demand from retail investors for Asian bond funds with a fixed investment tenor, the Asian Bond Target Maturity Fund 2022 was introduced at the beginning of the year.

Looking ahead, the company's wholly-owned subsidiary, BEA Union Investment Management (Shenzhen) Limited, is registering with the Mainland authorities for a private fund management company license, which will enable the company to invest capital onshore and launch private funds catering to Mainland professional investors.

## Our People

As of 30<sup>th</sup> June, 2019, the BEA Group employed 9,879 people:

| Continuing Operations | As of<br>30 <sup>th</sup> June, 2019 | As of<br>31 <sup>st</sup> December, 2018 | As of<br>30 <sup>th</sup> June, 2018 |
|-----------------------|--------------------------------------|------------------------------------------|--------------------------------------|
| Hong Kong             | 5,497                                | 5,376                                    | 5,144                                |
| Mainland China        | 3,782                                | 3,821                                    | 3,879                                |
| Macau & Taiwan        | 161                                  | 164                                      | 158                                  |
| Overseas              | 439                                  | 435                                      | 422                                  |
| Total                 | 9,879                                | 9,796                                    | 9,603                                |

In the first half of 2019, the Bank continued to promote a strong corporate culture of prudent risk management and commitment to positive customer experiences. Drawing on feedback gathered through employee and customer surveys, a number of new initiatives are being implemented. The Staff Recognition Scheme is being promoted more actively, in order to highlight the good performance of staff who exhibit exemplary behaviour. Meanwhile, a series of interactive town hall meetings are being held to share examples of best practice.

To identify and develop future leaders of high potential to support the Group's succession planning, a new Talent Development Framework for senior executives will be implemented later this year. As part of the Bank's ongoing programme to support leadership and professional development, the Bank ran senior executive leadership training for senior managers, performance management training for people managers, risk and compliance training for all staff, induction training on core values for new joiners and code of conduct training for all staff members. In addition, the Bank continued to operate a management trainee programme to groom staff members for future leadership roles.

As a caring employer, the Bank further enhanced staff benefits in respect of medical protection in 2019.

## Future Prospects

### Outlook

The global political and economic environment is becoming more complex and fluid, raising the overall level of risk faced by the banking industry. The longer the US-China trade conflict continues to drag on, the greater the potential for further deterioration in the economic outlook for China. As a trading hub, Hong Kong is caught in the middle, and cannot escape the fallout from the conflict. The situation for Hong Kong is further complicated by social unrest. In Europe, uncertainties are growing, with a "no-deal" Brexit now a strong possibility.

Meanwhile, the emergence of virtual banks and the continuing development of non-bank Fintech solutions will challenge the business model of conventional banks. Funding costs may rise as virtual banks compete for deposits; operating expenses may face pressure, as traditional banks invest in enhanced products and services and introduce more favourable terms in order to maintain their edge.

Going forward, BEA will seek to raise core revenues through various means, including expanding its customer base, enhancing the customer experience and pursuing its retail transformation strategy on the Mainland. At the same time, the Bank will keep careful control over asset quality and risk, and pursue strategies to reduce funding costs.

### ***Expand customer base***

Hong Kong business will focus on expanding its customer base in high growth segments. Specifically, BEA will continue to offer innovative products and services that cater to the needs and aspirations of the affluent, young professionals and millennials in Hong Kong.

In addition, BEA will deploy more resources to better serve SMEs, so as to drive the growth of its corporate client base in Hong Kong. At the same time, BEA is upgrading its commercial banking capacity to offer services tailored to mid-market customers.

In respect of cross-border operations, the Bank is driving significant reforms focussing on product specialisation, global relationship management, cooperation between Hong Kong, Mainland and overseas operations, and customer diversification.

### ***Enhance customer experience***

To enhance the customer experience, the Bank will continue to enrich its digital services and refine its mobile offerings. Additional features are being added to its Hong Kong mobile banking platform on a continuing basis. Later this year, customers will be able to open new accounts directly through their mobile devices. In addition, the Corporate Cyberbanking platform in Hong Kong is being enhanced to improve online services for corporate clients.

Meanwhile, BEA China is also working to further develop its digital banking platform. The latest enhancements to the BEA China mobile banking app include use of facial recognition for cash withdrawals, and QR code capabilities.

### ***Retail transformation in China***

Three key elements have been identified to drive BEA China's retail transformation – technology, risk management and compliance, and partnerships.

Technology plays a major role in BEA China's plan to further extend its reach. Technology also helps enhance the customer experience, improve risk management and drive efficiency.

Following efforts by the Mainland regulators to orderly mitigate shadow banking risks, lending activities are being channeled back to the banking system. With its extensive experience in the market, BEA China is well positioned to capture the opportunities arising from this policy.

Meanwhile, BEA China has been highly successful in leveraging its partnerships with Internet platform companies to acquire new customers and expand its retail loan portfolio. BEA China is well-positioned to provide innovative solutions to partners who are agile, reliable and have an extensive nationwide reach.

### ***Greater Bay Area***

BEA has an extensive network in the Greater Bay Area, with 100 outlets covering Hong Kong, Macau and 9 cities in Guangdong. In addition to its banking licence, BEA is the largest shareholder of East Asia Qianhai Securities Limited, a fully-licensed securities company.

The interconnection of people, logistics and capital flows is expected to create significant business opportunities for banks. BEA will focus on promoting cross-border payments, trade finance, wealth management and professional services to enterprises and individuals in the region.

### ***Cost Management***

BEA continues to implement new technologies to enhance efficiency. The adoption of Robotic Process Automation has enabled the Bank to increase employee productivity and ultimately deliver a more satisfying customer experience by automating repetitive manual tasks. Meanwhile, mobile remote account opening uses advanced facial recognition technology for identity verification, streamlining the application flow and shortening processing time.

To reduce funding costs, BEA has implemented a multi-pronged strategy. The Bank is working to absorb low-cost deposits across all business units with the launch of new savings products. This strategy has proven to be highly effective.

On the Mainland, the Bank will continue to enhance its trade finance and cash management businesses with the aim of acquiring low cost deposits in order to further reduce funding costs.

### ***Asset quality***

As the operating environment on the Mainland is likely to remain challenging, BEA will proactively manage its exposure to high credit-risk and cyclical industries.

In Hong Kong and overseas, asset quality has remained healthy. The Bank will continue to monitor the macro environment, government policies and liquidity conditions closely and manage its asset quality carefully.

## **RISK MANAGEMENT**

The Group has established an effective risk governance and management framework in line with the requirements set out by the HKMA and other regulators. This framework is built around a structure that enables the Board and Senior Management to discharge their risk management-related responsibilities with appropriate delegation and checks and balances. These responsibilities include defining risk appetite in accordance with the Group's business strategies and objectives, formulating risk policies that govern the execution of those strategies, and establishing procedures and limits for the approval, control, monitoring, and remedy of risks.

The Risk Committee stands at the highest level of the Group's risk governance structure under the Board. It consists of four independent non-executive directors (including the Chairman of the Committee) and two non-executive directors. The Risk Committee provides direct oversight over the formulation of the Group's institutional risk appetite, and sets the levels of risk that the Group is willing to undertake with reference to its financial capacity, strategic direction, prevailing market conditions, and regulatory requirements.

The Risk Committee also ensures that the Group's risk appetite is reflected in the policies and procedures that Senior Management and relevant Division Heads adopt to execute their business functions. Through the Group's management committees at the executive level, including Crisis Management Committee, Risk Management Committee, Credit Committee, Asset and Liability Management Committee, and Operational Risk Management Committee – and with overall co-ordination by the Risk Management Division – the Risk Committee regularly reviews the Group's risk management framework and ensures that all important risk-related tasks are performed according to established policies with appropriate resources.

The Group has implemented an Enterprise Risk Management framework. The ERM framework is promulgated with the objectives of identifying and managing potential risks in a holistic and effective manner, fulfilling the HKMA's higher expectations with regard to the risk management of the Group as a Domestic Systemically Important Bank, and reinforcing the "Three Lines of Defence" risk management model.

The Group has adopted the "Three Lines of Defence" risk management structure to ensure that roles and responsibilities in regard to risk management within the Group are clearly defined. The "Three Lines of Defence" model is summarised as follows:

- The first line of defence comprises the Risk Owners, who are division / department heads at Head Office and heads of significant subsidiaries, together with staff under their management. They are primarily responsible for the day-to-day risk management of their units, including establishing and executing specific risk control mechanisms and detailed procedures.
- The second line of defence consists of the Risk Controllers, who are designated division / department heads at Head Office. Supported by their respective divisions and departments, the Risk Controllers are responsible for setting out a risk management governance framework, monitoring

risks independently and supporting the management committees in their oversight of risk management.

- The third line of defence is the Internal Audit Division, which is responsible for providing assurance as to the effectiveness of the Group's risk management framework, including risk governance arrangements.

The Group Chief Risk Officer co-ordinates all risk management-related matters of the Group, works closely with the Risk Controllers on the formulation of risk management policies and exercises risk oversight at the Group level through a functional working relationship with all Risk Controllers and Risk Owners.

The Group has formulated policies to identify, measure, monitor, control, and report on the various types of risk and, where appropriate, to allocate adequate capital to cover those risks. The Group's major risk management policies and control limits are approved by the Board and are reviewed and enhanced on a regular basis to cater for market changes, statutory requirements, and best practice in risk management processes. The Board has delegated the responsibility for ongoing risk management to the Risk Committee and the management committees. Significant risk management-related issues must be reported to the Board, which oversees risk management. Moreover, on a daily basis, the Group Chief Risk Officer is responsible for overseeing the Group's risk management issues, which include, but are not limited to, the risk management infrastructure, strategies, appetites, culture, and resources.

Stress testing is an integral part of the Group's risk management. The Group regularly performs stress tests on the principal risks, where appropriate, to assess the potential impact of stressed business conditions (including hypothetical situations such as a significant economic downturn in Mainland China and Hong Kong) on the Group's financial positions, in particular, capital adequacy, profitability, and liquidity. Whenever necessary, a prompt management response will be developed and executed to mitigate potential impacts.

#### **(a) Credit risk management**

Credit risk is the risk of loss arising from a borrower or counterparty failing to meet its obligations.

The Credit Committee is responsible for managing all credit risk-related issues of the Group, while the Credit Risk Management Department under the Risk Management Division of the Group is responsible for monitoring activities relating to credit risk. The Group identifies and manages credit risk by defining the target market segment, formulating appropriate credit policies, and carrying out credit assessment and monitoring of asset quality. Credit risk control limits are set for different levels. Risk, return, and market situation are considered when setting all limits. Active limit monitoring is undertaken.

In evaluating the credit risk associated with an individual customer or counterparty, financial strength and repayment ability are always the primary considerations. Credit risk may be mitigated by obtaining collateral from the customer or counterparty.

The Group has established policies, procedures, and rating systems to identify, measure, monitor, control, and report on credit risk. In this connection, guidelines for management of credit risk have been laid down in the Group's Credit Risk Management Manual. These guidelines stipulate delegated lending authorities, credit underwriting criteria, credit monitoring processes, an internal rating structure, credit recovery procedures and a provisioning policy. They are reviewed and enhanced on an ongoing basis to cater for market changes, statutory requirements, and best practice in risk management processes.

#### **(b) Market risk management**

Market risk is the risk arising from adverse movements in market factors such as interest rates, foreign exchange, equity prices, and commodity prices, which result in profits or losses for the Group. The aim in managing market risk is to reduce the Group's exposure to the volatility inherent in market factors.

The Asset and Liability Management Committee deals with all market-risk related issues of the Group. It is also responsible for conducting a regular review of interest rate trends and deciding the corresponding future business strategy. The Asset & Liability Management Department under the Risk Management Division of the Group is responsible for monitoring activities relating to market risk.

The use of derivatives for proprietary trading and the sale of derivatives to customers as risk management products are integral parts of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk, as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest rate, foreign exchange, and equity-related contracts, in the form of both over-the-counter derivatives and exchange-traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to manage the risk of these and other trading positions.

In this connection, the key types of market risk that must be managed are:

*(i) Currency risk*

The Group's foreign currency positions arise from foreign exchange dealing (including derivatives), commercial banking operations, and structural foreign currency exposures. The Group's non-structural foreign currency exposures are denominated in major currencies, particularly USD and CNY. All foreign currency positions are managed within limits approved by the Board or the Asset and Liability Management Committee.

Structural foreign currency positions, which arise mainly from foreign currency investments in the Group's branches, subsidiaries, and associated companies, are excluded from value-at-risk measurements, as related gains or losses are taken to reserves. Such foreign currency positions are held with the intention of hedging any adverse effect, partially or totally, of exchange rate movements on the capital adequacy ratio. The Group seeks to match its foreign currency denominated assets closely with corresponding liabilities in the same currencies.

*(ii) Interest rate risk*

The Group's trading interest rate positions arise from treasury and dynamic hedging of commercial banking activities. Interest rate risk is managed daily by the Treasury Markets Division of the Group within the limits approved by the Board or the Asset and Liability Management Committee. The instruments used to manage interest rate risk include interest rate swaps and other derivatives.

*(iii) Equity risk*

The Group's equity positions arise from equity investment and dynamic hedging of customer-driven business. Equity risk is managed daily by the Investment Department within the limits approved by the Board, Investment Committee, or the Asset and Liability Management Committee.

Market risk control limits have been set at varying levels according to the practical requirements of different units. The Board approves the core control limits and has delegated the authority to set detailed control limits to the Asset and Liability Management Committee. Risk, return, and market conditions are considered when setting limits. Active limit monitoring is carried out.

In this connection, the Asset and Liability Management Committee monitors the related market risk arising from the risk-taking activities of the Group to ensure that overall and individual market risks are within the Group's risk tolerance level. Risk exposures are monitored frequently to ensure that they are within established control limits.

The Group quantifies the market risk of the underlying trading portfolio by means of VaR. VaR is a statistical estimate that measures the potential losses in market value of a portfolio as a result of unfavourable movements in market rates and prices, assuming that positions are

held unchanged over a certain horizon time period.

The Group estimates VaR for the Group's trading portfolio by the historical simulation approach, where the VaR is calculated by revaluing the portfolio for each of the market movement scenarios obtained from the historical observation period. This methodology uses movements in market rates and prices over a one-day holding period with a 99% confidence level under a two-year observation period.

The market value of listed shares, the fair value of private equity funds and unlisted equities (collectively the "Unlisted Securities"), are subject to limits and these are managed by the Investment Department of the Group. The Unlisted Securities and listed non-trading equities are not included in the VaR for the equity trading position, and are managed through delegated limits. The limits are subject to regular review by the Asset and Liability Management Committee.

#### *Value-at-risk statistics*

|                                             | 2019 - First Half                  |                   |                   |                |
|---------------------------------------------|------------------------------------|-------------------|-------------------|----------------|
|                                             | At 30 <sup>th</sup> June<br>HKD Mn | Maximum<br>HKD Mn | Minimum<br>HKD Mn | Mean<br>HKD Mn |
| VaR for total trading activities            | 29                                 | 38                | 29                | 33             |
| VaR for foreign exchange trading positions* | 7                                  | 16                | 6                 | 11             |
| VaR for interest rate trading positions     | 2                                  | 5                 | 1                 | 3              |
| VaR for equity trading positions            | 22                                 | 25                | 20                | 22             |

|                                             | 2018 – First Half                  |                   |                   |                |
|---------------------------------------------|------------------------------------|-------------------|-------------------|----------------|
|                                             | At 30 <sup>th</sup> June<br>HKD Mn | Maximum<br>HKD Mn | Minimum<br>HKD Mn | Mean<br>HKD Mn |
| VaR for total trading activities            | 38                                 | 41                | 34                | 38             |
| VaR for foreign exchange trading positions* | 14                                 | 14                | 7                 | 10             |
| VaR for interest rate trading positions     | 6                                  | 8                 | 5                 | 7              |
| VaR for equity trading positions            | 24                                 | 32                | 23                | 27             |

*\* Including all foreign exchange positions but excluding structural foreign exchange positions.*

The average daily profit for all trading activities (including foreign exchange, interest rate, and equity trading activities) for the first six months of 2019 was HKD2.74 million (average daily profit of HKD2.48 million for the first six months of 2018). The standard deviation of the daily profit/loss for the period was HKD8.44 million (standard deviation of HKD10.5 million for the same period in 2018).

#### **(c) Operational risk management**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The objectives of operational risk management are to identify, assess, monitor, and report operational risk of the Group systematically and effectively; to minimise any operational loss and other impact on the Group; and to comply with the relevant regulatory requirements.

The Operational Risk Management Committee is responsible for overseeing operational risk management of the Group while the Operational Risk Management Department under the Risk Management Division of the Group is responsible for monitoring activities relating to operational risk.

The operational risk management tools adopted include operational risk incidents reporting, risk assessments, key risk indicators, operation manuals, insurance policies, etc.

**(d) *Liquidity risk management***

Liquidity risk is the risk that the Group may not be able to meet its obligations as they come due because of an inability to obtain adequate funding (funding liquidity risk); or that the Group cannot easily liquidate assets quickly without significantly lowering market prices because of inadequate market depth or market disruptions (market liquidity risk).

The purpose of liquidity risk management is to ensure sufficient cash flows to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to make new loans and investments as opportunities arise and, last but not least, to comply with all the statutory requirements for liquidity risk management, including Liquidity Coverage Ratio and Net Stable Funding Ratio.

The Group reviews the risk profile through regular assessments of both qualitative and quantitative risk factors to determine its tolerance of prevailing risk levels against applicable risk appetite statement for liquidity risk approved annually by the Board. The Asset and Liability Management Committee is delegated by the Board to oversee the Group's liquidity risk management. The Asset and Liability Management Committee comprises balanced representation of senior staff from business, Treasury, Risk Management and Finance units, who jointly formulate funding strategies. The Asset and Liability Management Committee sets the strategy, policy, and limits for managing liquidity risk and the means for ensuring that such strategy and policy are implemented. Regular meetings are held to review the compliance status of the monitoring matrix established and the need for any change in strategy and policy. Liquidity is managed daily by the Capital Markets & Liquidity Management Department under the Treasury Markets Division of the Group within the set limits. The Asset & Liability Management Department under the Risk Management Division of the Group is responsible for monitoring the activities relating to liquidity risk. The Internal Audit Division performs periodic reviews to ensure that the liquidity risk management functions are carried out effectively.

The LCR and NSFR statutory requirements are part of the stringent regulatory regime that covers the liquidity risk management of the Group. To ensure compliance with the regulatory requirements, internal targets for LCR and NSFR have been set above regulatory required levels, after considering the Group's liquidity risk appetite. In addition, material changes in the LCR and NSFR are reviewed regularly by the Asset and Liability Management Committee together with proposed mitigation actions to cope with adverse changes arising from, but not limited to, composition of the deposit base and remaining tenor to maturity, lending activities with respect to different maturity tenors, and the Group's asset and liability mix strategy. In planning the asset and liability mix strategy, the Group's relevant business units contribute to an assessment of the impact of asset growth and funding structure on the LCR and NSFR for review and decision by the Asset and Liability Management Committee.

As part of Group efforts to manage the LCR and NSFR effectively, emphasis is placed on strengthening the deposit base by retaining loyal customers and maintaining customer relationships. The Group balances funding among retail, small business, and wholesale funding to avoid concentration in any one source. Professional markets are accessed through the issuance of certificates of deposit, medium-term notes, subordinated debt, money market placement, and borrowing for the purposes of providing additional funding, maintaining a presence in local money markets, and optimising asset and liability maturities.

In addition to observing the statutory LCR and NSFR, the Group has established different liquidity metrics – including but not limited to the loan-to-deposit ratio, cumulative maturity mismatch ratio, funding concentration ratio, intra-group exposure threshold, and cross currency funding ratio – to measure and analyse the Group's liquidity risk. The Group maintains sufficient High-quality liquid assets as a liquidity cushion that can be accessed in times of stress. The HQLAs for fulfilling the LCR consist of cash, exchange fund bills and notes, high quality government debt securities and other equivalent liquid marketable assets. The majority of HQLAs are denominated in Hong Kong dollars. Contingent funding sources are maintained to provide strategic liquidity to meet unexpected and material cash outflows.

Internally, intra-group funding transactions are carried out at arm's length and treated in a manner in line with third-party transactions, with regular monitoring and appropriate control. As a majority of the Group's liquidity risk arises from the maturity mismatch gap between the Group's asset and liability portfolios, the Group manages liquidity risk by conducting cash flow analysis and projections through the regular use of the Bank's management information system. These are carried out on a regular basis to identify funding needs arising from on- and off-balance sheet items in a specific time frame over a set of time horizons.

The Group also conducts stress-testing regularly to analyse liquidity risk. Both on and off-balance sheet items and their impact on cash flow are considered, together with applicable hypothetical and historical assumptions. The assessment and review of market liquidity risk are included in the various control processes, including investment/trading strategy, market risk monitoring, valuation, and portfolio review. Three stress scenarios – namely an institution-specific crisis, a general market crisis, and a crisis involving a combination of the two – are adopted with minimum survival period defined according to the HKMA's Supervisory Policy Manual LM-2, "Sound Systems and Controls for Liquidity Risk Management".

With reference to the stress-testing results, the Group identifies potential vulnerabilities within the Group, establishes internal limits and formulates a contingency funding policy that sets out the Group's strategy for dealing with any liquidity problem and the procedures for making up cash flow deficits in emergency situations.

The contingency funding policy is designed to be pro-active and pre-emptive, and stipulates the following three stages:

1. The Group utilises early warning indicators, which cover both qualitative and quantitative measures, and monitors both internal and external factors. Should there be any early signs of significant impact on the Group's liquidity position, the Asset and Liability Management Committee is informed. The Asset and Liability Management Committee will consider appropriate remedial actions and will consider employing crisis management if the situation warrants.
2. A Crisis Management Committee, which is chaired by the Co-Chief Executives, is formed to handle the crisis. Strategy and procedures for obtaining contingency funding, as well as roles and responsibilities of the parties concerned, are clearly stated.
3. In the final stage, a post-crisis review is carried out to recommend necessary improvements to avoid incidents of a similar nature in the future.

An annual drill test is conducted and the contingency funding policy is subject to regular review in order to accommodate any changes in the business environment. Any significant changes to the contingency funding policy are approved by the Board.

### **Certificates of Deposit, Debt Securities Issued, and Loan Capital**

In the first half of 2019, BEA issued floating rate certificates of deposit and debt securities with a face value of HKD150 million and USD516 million; fixed rate certificates of deposit and debt securities with a face value of HKD5,527 million, USD848 million and CNY2,500 million; and zero coupon certificates of deposit and debt securities with a face value of HKD2,303 million, USD2,070 million, CNY11,630 million, GBP118 million, EUR651 million and CHF50 million. The Group redeemed a quantity of certificates of deposit and debt securities amounting to HKD50,593 million equivalent upon maturity.

At the end of June 2019, the face value of the outstanding certificates of deposit and debt securities issued was equivalent to HKD67,495 million, with a carrying amount equivalent to HKD67,009 million.

### Maturity Profile of Certificates of Deposit and Debt Securities Issued

As at 30<sup>th</sup> June, 2019

(All expressed in millions of dollars)

|                                                                                               | <b>Total Face<br/>Value</b> | <b>Year of Maturity</b> |                    |                    |
|-----------------------------------------------------------------------------------------------|-----------------------------|-------------------------|--------------------|--------------------|
|                                                                                               |                             | <b><u>2019</u></b>      | <b><u>2020</u></b> | <b><u>2022</u></b> |
| <b>Floating Rate</b>                                                                          |                             |                         |                    |                    |
| HKD                                                                                           | 150                         |                         | 150                |                    |
| USD                                                                                           | 948                         | 412                     | 536                |                    |
| <b>Fixed Rate (Note)</b>                                                                      |                             |                         |                    |                    |
| HKD                                                                                           | 7,287                       | 4,567                   | 2,720              |                    |
| USD                                                                                           | 969                         | 300                     | 669                |                    |
| CNY                                                                                           | 2,500                       |                         |                    | 2,500              |
| GBP                                                                                           | 25                          | 25                      |                    |                    |
| JPY                                                                                           | 1,500                       | 1,500                   |                    |                    |
| CHF                                                                                           | 30                          | 30                      |                    |                    |
| <b>Zero Coupon</b>                                                                            |                             |                         |                    |                    |
| HKD                                                                                           | 2,550                       | 250                     | 2,300              |                    |
| USD                                                                                           | 2,279                       | 1,715                   | 564                |                    |
| CNY                                                                                           | 13,640                      | 6,790                   | 6,850              |                    |
| GBP                                                                                           | 258                         | 138                     | 120                |                    |
| CHF                                                                                           | 50                          | 50                      |                    |                    |
| EUR                                                                                           | 316                         | 266                     | 50                 |                    |
| <b>Total Certificates of<br/>Deposit and Debt<br/>Securities issued in HKD<br/>equivalent</b> | <b>67,495</b>               | <b>36,231</b>           | <b>28,419</b>      | <b>2,845</b>       |

Note:

Associated interest rate swaps are arranged in order to manage interest rate risk from long-term certificates of deposit and debt securities issued, if deemed necessary.

In the first half of 2019, BEA issued fixed rate loan capital with a face value of CNY1,500 million.

At the end of June 2019, the face value of the outstanding loan capital issued was equivalent to HKD14,208 million, with a carrying amount equivalent to HKD14,193 million.

### Maturity Profile of Loan Capital

As at 30<sup>th</sup> June, 2019

(All expressed in millions of dollars)

|                                                        | <b>Total Face<br/>Value</b> | <b><u>2020</u></b> | <b>Year of Maturity</b> |                    |                    |
|--------------------------------------------------------|-----------------------------|--------------------|-------------------------|--------------------|--------------------|
|                                                        |                             |                    | <b><u>2024</u></b>      | <b><u>2026</u></b> | <b><u>2029</u></b> |
| USD (Notes 1 & 2)                                      | 1,600                       | 600                | 500                     | 500                |                    |
| CNY (Note 3)                                           | 1,500                       |                    |                         |                    | 1,500              |
| <b>Total Loan Capital issued<br/>in HKD equivalent</b> | <b>14,208</b>               | <b>4,688</b>       | <b>3,907</b>            | <b>3,907</b>       | <b>1,706</b>       |

Notes:

1. The USD500 million loan capital that matures in 2024 will be callable on 20<sup>th</sup> November, 2019.
2. The USD500 million loan capital that matures in 2026 will be callable on 3<sup>rd</sup> November, 2021.
3. The CNY1,500 million loan capital that matures in 2029 will be callable on 25<sup>th</sup> April, 2024.

**(e) *Interest rate risk management***

Interest rate risk is the risk resulting from adverse movements in interest rates that affect the earnings and economic value of the Group's banking book positions. The Asset and Liability Management Committee is delegated by the Board to oversee the Group's interest rate risk management, establish the strategy and policy for managing interest rate risk, and determine the means for ensuring that such strategies and policies are implemented. Interest rate risk is managed daily by the Treasury Markets Division of the Group within the limits approved by the Board or the Asset and Liability Management Committee. The Asset & Liability Management Department under the Risk Management Division of the Group is responsible for monitoring the activities relating to interest rate risk. The Internal Audit Division performs periodic reviews to ensure that the interest rate risk management functions are implemented effectively.

Interest rate risk primarily results from the timing differences in the re-pricing of interest rate-sensitive assets, liabilities, and off-balance sheet items in the banking book. In determining the level of interest rate risk, assessments are made for the gap risk, basis risk and options risk. The Group manages the interest rate risk on the banking book primarily by focusing on re-pricing mismatches. Gap analysis provides a static view of the maturity and re-pricing characteristics of the Group's interest rate-sensitive assets, liabilities, and off-balance sheet positions. Re-pricing gap position limits are set to control the Group's interest rate risk.

From 1<sup>st</sup> July, 2019, in line with the new requirements set by the HKMA, optionality and behavioural assumptions of certain products will also be estimated in the exposure measurement.

Sensitivity analysis in relation to the impact of changes in interest rates on earnings and economic value is assessed regularly through a number of hypothetical interest rate shock scenarios prescribed by the HKMA. Sensitivity limits are set to control the Group's interest rate risk exposure under both earnings and economic value perspectives. The results are reported to the Asset and Liability Management Committee on a regular basis.

**(f) *Strategic risk management***

Strategic risk is the risk of current or potential impact on the Group's earnings, capital, reputation, or standing arising from changes in the environment the Group operates in, adverse strategic decisions, improper implementation of decisions, or lack of responsiveness to industry, economic, or technological changes.

The Risk Management Division of the Group monitors the activities under the Group's prevailing interest-earning asset mix and funding strategies and regularly reports the status to the Asset and Liability Management Committee, Risk Management Committee, Risk Committee, and the Board, where appropriate.

Future capital requirements are determined based on the projections of Capital Adequacy Ratio and conditions under the Internal Capital Adequacy Assessment Process, so as to assess the level and structure of capital resources needed to support the risks that the Group tolerates.

**(g) *Legal risk management***

Legal risk is the risk of loss arising from unenforceable contracts, lawsuits, or adverse judgements that may disrupt or otherwise negatively affect the operations or financial condition of the Group.

The objective of managing legal risk is to identify, assess, monitor and report on legal risk, and to comply with the relevant legal and regulatory requirements.

The Group provides appropriate training courses conducted by qualified internal personnel and / or external lawyers / professionals. It also issues reminders to staff members if necessary. When dealing with legal matters, the Group engages qualified internal personnel and, when

necessary and appropriate, external lawyers with appropriate expertise including counsel and senior counsel.

The Operational Risk Management Committee is responsible for overseeing the management of the Group's legal risk.

**(h) Reputation risk management**

Reputation risk is the risk that the Group's reputation is damaged by one or more events that result in negative publicity about the business practices, conduct, or financial condition of the Group. Such negative publicity, whether true or not, may impair public confidence in the Group and may result in costly litigation, or lead to a decline in the Group's customer base, business, and / or revenue.

The objective of managing reputation risk is to identify, assess, monitor, report, and mitigate reputation risk, and to ensure compliance with the relevant regulatory requirements.

The Group establishes various policies, guidelines, manuals and codes to ensure compliance with applicable laws, rules and regulations, and to ensure that the Group maintains a high standard of corporate governance, which in turn helps to safeguard and enhance the Group's reputation.

The Group formulates and adheres to the Reputation Risk Management Manual, which outlines a systematic approach to the management of reputation risk, including a framework for reputation risk identification, assessment, monitoring, mitigation and control, thereby protecting and enhancing the reputation of the Group. The Guidelines for Incident Response and Management are established for swift response to and management of unexpected incidents. The Media Guidelines are established to ensure effective and consistent delivery of the Group's key messages to the media.

The Operational Risk Management Committee is responsible for overseeing the management of the Group's reputation risk.

**(i) Compliance risk management**

Compliance risk is the risk of potential losses arising from legal or regulatory sanctions, fines and penalties, financial losses or damage to reputation that the Group may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its business activities.

The Group establishes various policies, guidelines and manuals to ensure compliance with all applicable legislation, rules, codes of conduct, industry standards, and guidelines issued by the relevant regulatory authorities that govern the Group's operations. The Group formulates, and adheres to, the Group Compliance Risk Management Manual, which outlines a systematic approach to the management of compliance risk, including a framework for compliance risk identification, assessment, monitoring, mitigation and control, thereby enabling the Group to manage its compliance risk effectively. Independent regulatory compliance reviews are conducted on major functions of the Group using a risk-based approach.

**(j) Technology risk management**

Technology risk is the risk of loss to the Group due to inadequate or failed technical processes, people, and / or computing systems, or unauthorised access or disruption to technology resources, in particular relating to cyber security and e-banking.

To address increasing cyber security threats, the Group has put in place adequate security resources and proper control measures based on a defined risk appetite level. The Group has developed technology risk related policies and cyber security strategies as well as comprehensive security awareness programmes to strengthen cyber security at all levels.

The Group has also established a framework for proper management of technology risk. The Board and designated committees at the top level are responsible for overall management of technology risk for the Group. They lead various working teams and the “Three lines of defence” to address specific areas of concern.

Comprehensive control policies, standards, guidelines, and procedures are maintained to ensure that adequate control measures relating to the security of internet systems and applications, customer authentication, risk assessment for new products and services, and confidentiality and integrity of information are all in place.

**(k) *New product and business risk management***

New product and business risk is the risk of loss due to insufficient pre-assessment of significant potential risks introduced to the Group arising from the launch of new products, the structural change of existing products, and the establishment of new business operations (i.e. through the establishment of a new subsidiary and/or merger and acquisition). The significant potential risks include Credit Risk, Market Risk, Operational Risk, Liquidity Risk, Interest Rate Risk, Legal Risk, Technology Risk, Compliance Risk, Strategic Risk, Reputation Risk and Business Continuity Risk.

The Group establishes a robust risk governance structure, supported by comprehensive control guidelines and procedures. A structured evaluation process ensures that before initiating a new product or business, the potential significant risks are duly assessed, vetted and documented. The process also facilitates oversight of new products and businesses by Senior Management.

Each new product launch must go through an approval process, which includes business and financial analysis and risk assessment. New products are reviewed and assessed by the New Products Evaluation Working Group (comprising the department heads of supporting units and representatives of risk controllers), endorsed by the Steering Group for New Product and Business Risk Management (chaired by the Group Chief Risk Officer and comprising the division heads of supporting units), and approved by the Risk Management Committee.

**(l) *Business continuity risk management***

Business continuity risk is the risk of loss arising from business disruptions in the event of an incident or crisis. Business disruption could be caused by the loss of staff members, information technology and telecommunication systems, premises, key service providers, vital records, etc.

To manage business continuity risk, the Group establishes comprehensive policies, guidelines and manuals. Business impact analysis is conducted and business continuity plans are developed by all individual functional units of the Group.

Annual drills are performed to test preparedness and effectiveness of the business continuity plans.

**CORPORATE SOCIAL RESPONSIBILITY**

Through staff volunteering, donations, and other forms of assistance, the BEA Group and The Bank of East Asia Charitable Foundation (“BEA Foundation”) support a wide range of important initiatives under the three pillars of the Group’s community investment programme, namely education, social welfare, and the environment.

The year 2019 is a very special year for BEA, marking the centenary of the opening of the Bank in January 1919. In celebration of this achievement, the Bank launched several initiatives this year to highlight the Bank’s commitment to the prosperity and well-being of Hong Kong and all Hong Kong residents.

In January, approximately 200 representatives of the Bank, including members of senior management and staff volunteers, hosted a community luncheon for about 1,200 elderly residents of Hong Kong in conjunction with nine non-governmental organisations (“NGOs”). Meanwhile, BEA reaffirmed its commitment to supporting Hong Kong’s youth by teaming up with Tung Wah Group of Hospitals (“TWGHs”) to launch the Teen Café Youth Mental Health Promotion Project. As at the end of January

2019, the Bank had raised approximately HK\$1.8 million to support this project by inviting customers, business partners, and others to donate to the Teen Café in lieu of sending flowers or other congratulatory gifts to the Bank. The funds raised will enable TWGHs to provide mental health support to around 600 adolescents and young adults annually over the next several years.

For the fourth consecutive year, in March 2019 the Bank served as title sponsor for The Community Chest BEA Charity Golf Day, raising nearly HK\$2.3 million for mental health services provided by The Community Chest of Hong Kong's member agencies.

In May 2019, the BEA Foundation announced the recipients of the BEA Inspiring Student Scholarship. Ten tertiary students with special educational needs were chosen for this inspirational award, based on their personal achievements, circumstances, and ambitions.

BEA believes that financial literacy is a key life-skill for the modern world, giving people the knowledge they need to make informed decisions to manage their financial affairs. In January, the Bank held its annual Economic and Market Outlook Seminar for more than 650 corporate and personal banking customers. Attendees learned from experts in the property, securities, and foreign exchange fields, who spoke on the latest developments in the various asset classes. In March, the Bank supported Hong Kong Money Month 2019 by organising several visits to secondary schools where staff members explained to students how banks can support people's needs at different stages of life. In addition, BEA organised a number of workshops for primary and secondary school students, the underprivileged, and the elderly during the first half of the year, collaborating with a number of NGOs including Christian Action, Hong Kong Christian Service, The Hong Kong Chinese Christian Churches Union, and The Salvation Army Hong Kong and Macau Command. BEA also developed a special programme for youth, teaming up with Hong Kong Science Park to organise the BEA 100 FinTech Challenge for local university students. Students were evaluated on the creativity, functionality and feasibility of their proposals, and on the group's presentation skills.

During the period under review, the Bank continued to explore ways to reduce the impact of its operations on the environment. During the past year, the flood lights on top of BEA Tower were replaced with energy-efficient halogen lamps. The Bank expects that this initiative will result in a 70% reduction in the electricity required for rooftop lighting.

Meanwhile, improvements to the water-cooled chiller plant at Head Office should reduce annual energy consumption for air conditioning by about 5%, and water consumption by about 10%.

In June 2019, the Bank held an environmental, social and governance ("ESG") workshop for its senior executives based in the region and overseas with the aim of creating a greater understanding of sustainability issues and raising awareness of the importance of ESG throughout the entire organisation.

BEA ensured that its units complied with the Group's Corporate Social Responsibility ("CSR") Policy, Environmental Policy, and other related codes and guidelines during the period under review through the efforts of the Group's CSR Working Group.

For more information on BEA's community investment initiatives and ESG performance, please refer to the Group's ESG Report, which is available via the Bank's corporate website at [www.hkbea.com](http://www.hkbea.com) (About BEA/ Corporate Social Responsibility).

## **RECOGNITION**

During the first six months of 2019, the Bank received a number of awards in recognition of its achievements. These included:

- "2019 Best SME's Partner Award" (for the twelfth consecutive year) from The Hong Kong General Chamber of Small and Medium Business;
- "Quamnet Outstanding Enterprise Awards 2018 – Outstanding SME Service Provider (Bank)" (for the sixth consecutive year) from Quam (H.K.) Limited;
- "Best Digital Bank, Hong Kong" and "Best Retail Bank, Hong Kong" in the Global Brands Awards 2018 from Global Brands Magazine;
- "Excellent Brand of Smart Banking" in the Leaders' Choice Awards 2019 from Metro Finance;

- “Outstanding Intelligent Lifestyle and Financial Management Platform” in the FinTech Awards 2018 from ET Net;
- Gold Award for “Best App – Banking Services”, “Best App – Lifestyle/Entertainment”, “Best App – Reform”, Silver Award for “Best User Experience”, and “Most Innovative Use of Mobile Technology” in the Mob-Ex Awards 2019 from Marketing Magazine;
- “Most Innovative Mobile Banking Application, Hong Kong” in the Triple A Digital Awards 2018 from The Asset Magazine;
- “Payment Merchant Services of the Year” in the International Excellence in Retail Financial Services Awards 2019 from The Asian Banker;
- The “Excellence Award” in Digital Innovation, Branch Innovation, and Integrated Marketing (Branding Promotion) and “Outstanding Performance Award” in Mobile Banking in the Financial Institution Awards 2019 from Bloomberg Businessweek (Chinese Edition);
- “Hong Kong and Macau Innovative Awards – Issuing Innovative Award (UnionPay APP)” from UnionPay International; and
- Gold Award for “Highest UPOP Acquiring Volume 2018” from UnionPay International.

Awards received by The Bank of East Asia (China) Limited included:

- “New Era Financial Institution Influence Award” from China Business Journal;
- “2018 Most Potential Forward & Swap Transaction Market Maker Award”, “2018 Best Comprehensive Member Award”, and “2018 Active Local Currency Market Interbank Trader” from China Foreign Exchange Trade System & National Interbank Funding Center; and
- “2018 China Grand Award” from JIEMIAN & CaiLianPress.

During the first half of 2019, Blue Cross (Asia-Pacific) Insurance Limited received the “IFTA Fintech Achievement Award 2018 – Insur-Tech Platinum Award” from the Institute of Financial Technologists of Asia while Bank of East Asia (Trustees) Limited received a Gold Rating for the BEA (MPF) Value Scheme in the MPF Ratings’ 2019 MPF Scheme Ratings and Awards programme from MPF Ratings Limited.

BEA Union Investment Management Limited received a number of awards in recognition of its performance. For BEA Union Investment:

- “Hong Kong Pension Funds Group Awards – Mixed Assets” from Lipper Fund Awards from Refinitiv Year 2019 Hong Kong.

For the BEA Union Investment Asian Bond and Currency Fund:

- “Best of the Best Award 2019: Asian Bonds” from Asia Asset Management (for its 10-year performance).

For the BEA Union Investment RMB Core Bond Fund:

- “Best Bond Fund, CNY” from Lipper Fund Awards from Refinitiv Year 2019 Hong Kong (for its 3-year performance).

For the BEA Greater China Tracker Fund under the BEA (MPF) Value Scheme:

- “Best Greater China Equity Pension Fund” from Lipper Awards from Refinitiv year 2019 Hong Kong (for its 3-year performance).

## **PURCHASE, SALE OR REDEMPTION OF THE BANK’S LISTED SECURITIES**

There was no purchase, sale or redemption by the Bank or any of its subsidiaries, of the listed securities of the Bank during the six months ended 30th June, 2019.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

The Group is committed to maintaining high standards of corporate governance and considers such commitment essential in balancing the interests of shareholders, customers and employees; and in upholding accountability and transparency.

The Bank has in place a corporate governance framework which identifies all the key participants of the Group and the ways which they relate to each other and their roles in the application of effective governance policies and processes.

The Bank also constantly reviews and enhances the effectiveness of the Group's corporate governance practices by referencing to market trend as well as guidelines and requirements issued by regulatory authorities.

Throughout the six months ended 30<sup>th</sup> June, 2019, the Bank has complied with all the Code Provisions set out in the CG Code, except for Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. With the re-designation of Dr. the Hon. Sir David Li Kwok-po as the Executive Chairman of the Bank and the appointment of Mr. Adrian David Li Man-kiu and Mr. Brian David Li Man-bun as Co-Chief Executives of the Bank on 1<sup>st</sup> July, 2019, the Bank has complied with all the Code Provisions set out in the CG Code.

Pursuant to Rule 3.10A of the Listing Rules, an issuer must appoint INEDs representing at least one-third of the board. Upon the resignation of The Hon. Chan Kin-por as an INED on 1<sup>st</sup> June, 2019, the Board comprises 16 members including 3 Executive Directors, 8 Non-executive Directors and 5 INEDs. As a result, the number of INEDs of the Board fell below the minimum number prescribed by the Listing Rules. The Bank is identifying a suitable candidate to fill the vacancy in order to comply with Rule 3.10A and Rule 3.11 of the Listing Rules as soon as practicable.

During the six months ended 30<sup>th</sup> June, 2019, the Bank has also followed the modules on CG-1, CG-5, Guidance on Empowerment of INEDs, and circular on Bank Culture Reform issued by the HKMA.

The Bank received confirmations from Directors that they have spent sufficient time performing their responsibilities as Directors of the Bank and have given sufficient time and attention to the Bank's affairs. All Directors acknowledged that they have participated, from time to time, in continuous professional development to develop and refresh their knowledge and skills for carrying out their duties and responsibilities as Directors of the Bank.

The AC of the Bank has reviewed the results of the Bank for the six months ended 30<sup>th</sup> June, 2019 and the Bank's Interim Report 2019.

## **COMPLIANCE WITH MODEL CODE**

The Bank has adopted its own code of securities transactions by the Directors and Chief Executive, i.e. *Policy on Insider Dealing – Directors and Chief Executive* ("Bank's Policy") on terms no less exacting than the required standard set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") of the Listing Rules.

The Bank has also adopted a *Policy on Insider Dealing – Group Personnel* to be observed by the employees of the Bank or directors or employees of the Bank's subsidiaries, in respect of their dealings in the securities of the Bank.

Following specific enquiries by the Bank, all Directors confirmed that they had complied with the required standard set out in the Model Code and the Bank's Policy at all the applicable time during the six months ended 30<sup>th</sup> June, 2019.

By order of the Board  
**David LI Kwok-po**  
*Executive Chairman*

Hong Kong, 21<sup>st</sup> August, 2019

*As at the date of this announcement, the Board of Directors of the Bank comprises Dr. the Hon. Sir David LI Kwok-po<sup>#</sup> (Executive Chairman), Professor Arthur LI Kwok-cheung\* (Deputy Chairman), Dr. Allan WONG Chi-yun\*\* (Deputy Chairman), Mr. Aubrey LI Kwok-sing\*, Mr. Winston LO Yau-lai\*, Mr. Stephen Charles LI Kwok-sze\*, Dr. Isidro FAINÉ CASAS\*, Dr. Peter LEE Ka-kit\*, Mr. Adrian David LI Man-kiu<sup>#</sup> (Co-Chief Executive), Mr. Brian David LI Man-bun<sup>#</sup> (Co-Chief Executive), Dr. Daryl NG Win-kong\*, Mr. Masayuki OKU\*, Dr. the Hon. Rita FAN HSU Lai-tai\*\*, Mr. Meocre LI Kwok-wing\*\*, Dr. the Hon. Henry TANG Ying-yen\*\*, and Dr. Delman LEE\*\*.*

#      *Executive Director*  
\*      *Non-executive Director*  
\*\*     *Independent Non-executive Director*

## GLOSSARY

### 詞彙

|                                                |                                                                                                                                                                    |
|------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AC<br>「審核委員會」                                  | the Audit Committee of the Bank<br>本行的審核委員會                                                                                                                        |
| AUM<br>「管理資產」                                  | Assets under management<br>管理資產                                                                                                                                    |
| Bank Group or BEA Group or Group<br>「集團」或「本集團」 | The Bank and its subsidiaries<br>東亞銀行及其附屬公司                                                                                                                        |
| Bank or BEA<br>「本行」或「東亞銀行」                     | The Bank of East Asia, Limited, a limited liability company incorporated in Hong Kong<br>東亞銀行有限公司，於香港註冊成立的有限公司                                                     |
| Banking Ordinance<br>《銀行業條例》                   | Hong Kong Banking Ordinance (Chapter 155 of the Laws of Hong Kong)<br>香港《銀行業條例》（香港法例第 155 章）                                                                       |
| BEA China<br>「東亞中國」                            | The Bank of East Asia (China) Limited, a wholly-owned subsidiary of the Bank<br>東亞銀行（中國）有限公司，本行的全資附屬公司                                                             |
| BEA Life<br>「東亞人壽」                             | BEA Life Limited, a wholly-owned subsidiary of the Bank<br>東亞人壽保險有限公司，本行的全資附屬公司                                                                                    |
| BEA Union Investment<br>「東亞聯豐投資」               | BEA Union Investment Management Limited, a non-wholly-owned subsidiary of the Bank<br>東亞聯豐投資管理有限公司，本行的非全資附屬公司                                                      |
| Blue Cross<br>「藍十字」                            | Blue Cross (Asia-Pacific) Insurance Limited, a wholly-owned subsidiary of the Bank<br>藍十字（亞太）保險有限公司，本行的全資附屬公司                                                      |
| Board<br>「董事會」                                 | Board of Directors of the Bank<br>本行的董事會                                                                                                                           |
| Capital Rules<br>「《資本規則》」                      | Banking (Capital) Rules issued by the HKMA<br>金管局頒布的《銀行業(資本規則)》                                                                                                    |
| CASA<br>「往來賬戶及儲蓄賬戶」                            | Current and savings account ratio<br>往來賬戶及儲蓄賬戶                                                                                                                     |
| CG Code<br>「《企業管治守則》」                          | Corporate Governance Code and Corporate Governance Report, Appendix 14 of the Listing Rules<br>《上市規則》附錄 14 內所載的《企業管治守則》及《企業管治報告》                                   |
| CG-1<br>「CG-1」                                 | Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorized Institutions, issued by the HKMA<br>金管局頒布之監管政策手冊 CG-1 內有關《本地註冊認可機構的企業管治》 |
| CG-5<br>「CG-5」                                 | Supervisory Policy Manual CG-5 on Guideline on a Sound Remuneration System, issued by the HKMA<br>金管局頒布之監管政策手冊 CG-5 內有關《穩健的薪酬制度指引》                                 |
| CHF<br>「瑞士法郎」                                  | Swiss franc, the lawful currency of Switzerland<br>瑞士法定貨幣                                                                                                          |

|                                                     |                                                                                                                                                                                         |
|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| China, Mainland, Mainland China or PRC<br>「中國」或「內地」 | People's Republic of China<br>中華人民共和國                                                                                                                                                   |
| CNY or RMB<br>「人民幣」                                 | Chinese yuan or Renminbi, the lawful currency of the PRC<br>中國法定貨幣                                                                                                                      |
| Companies Ordinance<br>「《公司條例》」                     | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)<br>《公司條例》（香港法例第 622 章）                                                                                                   |
| Director(s)<br>「董事」                                 | includes any person who occupies the position of a director, by whatever name called, of the Bank or otherwise as the context may require<br>包括任何擔任本行董事職位的人士（無論該人是以何職稱擔任該職位），或文義另有所指的人士 |
| ERM<br>「企業風險管理架構」                                   | Enterprise Risk Management<br>企業風險管理架構                                                                                                                                                  |
| EUR<br>「歐元」或「歐羅」                                    | Euro<br>歐元區法定貨幣                                                                                                                                                                         |
| FVTPL                                               | Fair value through profit or loss<br>通過損益以反映公平價值                                                                                                                                        |
| FVOCI                                               | Fair value through other comprehensive income<br>通過其他全面收益以反映公平價值                                                                                                                        |
| Fintech<br>「金融科技」                                   | Financial technology<br>金融科技                                                                                                                                                            |
| GBP<br>「英鎊」                                         | Pound sterling, the lawful currency of the UK<br>英國法定貨幣                                                                                                                                 |
| HK\$ or HKD<br>「港幣」                                 | Hong Kong dollar, the lawful currency of Hong Kong<br>香港法定貨幣                                                                                                                            |
| HKAS<br>「香港會計準則」                                    | Hong Kong Accounting Standards<br>香港會計準則                                                                                                                                                |
| HKEx<br>「香港交易所」                                     | Hong Kong Exchanges and Clearing Limited<br>香港交易及結算所有限公司                                                                                                                                |
| HKFRS<br>「香港財務報告準則」                                 | Hong Kong Financial Reporting Standards<br>香港財務報告準則                                                                                                                                     |
| HKICPA<br>「香港會計師公會」                                 | Hong Kong Institute of Certified Public Accountants<br>香港會計師公會                                                                                                                          |
| HKMA<br>「金管局」                                       | Hong Kong Monetary Authority<br>香港金融管理局                                                                                                                                                 |
| Hong Kong or HK or HKSAR<br>「香港」                    | Hong Kong Special Administration Region of PRC<br>中華人民共和國香港特別行政區                                                                                                                        |
| HQLA<br>「優質流動資產」                                    | High-quality liquid asset<br>優質流動資產                                                                                                                                                     |

|                           |                                                                                                                                                                        |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IT<br>「資訊科技」              | Information technology<br>資訊科技                                                                                                                                         |
| JPY<br>「日圓」               | Japanese yen, the lawful currency of Japan<br>日本法定貨幣                                                                                                                   |
| LCR<br>「流動性覆蓋比率」          | Liquidity Coverage Ratio<br>流動性覆蓋比率                                                                                                                                    |
| Listing Rules<br>「《上市規則》」 | the Rules Governing the Listing of Securities on the Stock Exchange (as amended, modified or otherwise supplemented from time to time)<br>聯交所《證券上市規則》，經不時修訂、修改或以其他方式補充 |
| Mn<br>「百萬」                | Million<br>百萬                                                                                                                                                          |
| MPF<br>「強積金」              | Mandatory Provident Fund<br>強制性公積金                                                                                                                                     |
| NIM<br>「淨息差」              | Net interest margin<br>淨息差                                                                                                                                             |
| NSFR<br>「穩定資金淨額比率」        | Net Stable Funding Ratio<br>穩定資金淨額比率                                                                                                                                   |
| SFO<br>「《證券及期貨條例》」        | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)<br>《證券及期貨條例》（香港法例第 571 章）                                                                  |
| Share<br>「股份」             | Ordinary shares of the Bank<br>本行普通股                                                                                                                                   |
| SME<br>「中小企」              | Small and medium-sized enterprise<br>中小型企業                                                                                                                             |
| Stock Exchange<br>「聯交所」   | The Stock Exchange of Hong Kong Limited<br>香港聯合交易所有限公司                                                                                                                 |
| UK<br>「英國」                | United Kingdom<br>英國                                                                                                                                                   |
| US<br>「美國」                | United States of America<br>美利堅合眾國                                                                                                                                     |
| US\$ or USD<br>「美元」       | United States dollar, the lawful currency of the US<br>美國法定貨幣                                                                                                          |
| VaR<br>「風險值」              | value-at-risk<br>風險值                                                                                                                                                   |