

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2018 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 30th June, 2018.

Consolidated Income Statement

	Notes	6 months ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 Restated HK\$ Mn
CONTINUING OPERATIONS			
Interest income	3	12,183	10,459
Interest expense	4	(5,933)	(4,720)
Net interest income		6,250	5,739
Fee and commission income	5	1,935	1,708
Fee and commission expense		(573)	(490)
Net fee and commission income		1,362	1,218
Net trading profits	6	556	187
Net result from other financial instruments at FVTPL	7	(142)	(4)
Net hedging profit/(loss)	8	16	(2)
Net insurance revenue	9	264	243
Other operating income	10	220	184
Non-interest income		2,276	1,826
Operating income		8,526	7,565
Operating expenses	11	(4,186)	(3,839)
Operating profit before impairment losses		4,340	3,726
Impairment losses on financial instruments	12	(282)	(765)
Impairment losses on assets held for sale		-	(58)
Impairment losses on intangible assets		(1)	-
Impairment losses		(283)	(823)
Operating profit after impairment losses		4,057	2,903
Net profit on sale of held-to-maturity investments		-	6
Net profit on sale of available-for-sale financial assets	13	-	215
Net profit on sale of financial assets at FVOCI	14	49	-
Net profit on sale of disposal groups and assets held for sale		10	190
Net profit on disposal of subsidiaries/associates		-	2
Net loss on disposal of fixed assets	15	(10)	(7)
Valuation gains on investment properties	22	394	229
Share of profits less losses of associates		281	224
Profit for the period before taxation		4,781	3,762
Income tax	16	(762)	(574)
Profit for the period from continuing operations		4,019	3,188
DISCONTINUED OPERATIONS			
Profit from discontinued operations	43	-	4,145
Profit for the period		4,019	7,333

Consolidated Income Statement (Continued)

		6 months ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 Restated HK\$ Mn
	<i>Notes</i>		
Attributable to:			
Owners of the parent			
- from continuing operations		3,992	3,171
- from discontinued operations		-	3,049
		<u>3,992</u>	<u>6,220</u>
Non-controlling interests		27	1,113
Profit for the period		<u>4,019</u>	<u>7,333</u>
Profit for the Bank		<u>3,369</u>	<u>6,823</u>
Earnings per share			
Basic	<i>1(b)</i>		
- profit for the period		HK\$1.30	HK\$2.20
- profit from continuing operations		HK\$1.30	HK\$1.08
Diluted	<i>1(b)</i>		
- profit for the period		HK\$1.30	HK\$2.20
- profit from continuing operations		HK\$1.30	HK\$1.08

Consolidated Statement of Comprehensive Income

		6 months ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 HK\$ Mn
	Notes		
Net profit		4,019	7,333
Other comprehensive income for the period:			
Items that will not be reclassified to income statement:			
Premises:			
- unrealised surplus on revaluation of premises		8	39
- deferred taxes	30	(8)	-
Fair value reserve (equity instruments):			
- net change in fair value		254	-
- deferred taxes	30	(4)	-
Liability credit reserve:			
- net change in fair value attributable to Group's own credit risk		(5)	-
- deferred taxes	30	1	-
Items that may be reclassified subsequently to income statement:			
Fair value reserve (debt instruments):			
- net change in fair value		(478)	-
- amount transferred to income statement on disposal	14	(23)	-
- on amortisation		(2)	-
- deferred taxes	30	12	-
Fair value reserve (available-for-sale financial assets):			
- net changes in fair value		-	1,154
- fair value changes reclassified from/(to) income statement:			
- on impairment and amortisation		-	3
- on disposal	13	-	(220)
- deferred taxes		-	(104)
Share of changes in equity of associates		(58)	(86)
Exchange differences arising from translation of accounts/disposal of overseas branches, subsidiaries and associates		(489)	1,259
Other comprehensive income		(792)	2,045
Total comprehensive income		3,227	9,378
Total comprehensive income attributable to:			
Owners of the parent		3,189	8,212
Non-controlling interests		38	1,166
		3,227	9,378

Consolidated Statement of Financial Position

		30/6/2018	31/12/2017
	Notes	HK\$ Mn	Restated HK\$ Mn
ASSETS			
Cash and balances with banks and other financial institutions		48,869	55,696
Placements with and advances to banks and other financial institutions	17	66,381	58,583
Trade bills	18	16,428	13,909
Trading assets	19	6,910	6,956
Derivative assets	37(a)	10,604	11,335
Loans and advances to customers	20	488,805	470,339
Investment securities	21	133,413	134,425
Investments in associates		9,321	9,429
Fixed assets	22	13,040	12,750
- Investment properties		5,366	5,107
- Other property and equipment		7,674	7,643
Goodwill and intangible assets		1,951	1,959
Deferred tax assets	30	568	602
Other assets	23	30,544	32,959
Total Assets		826,834	808,942
EQUITY AND LIABILITIES			
Deposits and balances of banks and other financial institutions		31,056	26,981
- Designated at fair value through profit or loss	24	3,468	3,110
- At amortised cost		27,588	23,871
Deposits from customers		568,682	571,684
- Demand deposits and current accounts		77,941	85,518
- Savings deposits		132,655	133,969
- Time, call and notice deposits		358,086	352,197
Trading liabilities	25	199	11
Derivative liabilities	37(a)	10,039	12,077
Certificates of deposit issued		50,815	36,466
- Designated at fair value through profit or loss	24	13,918	11,655
- At amortised cost		36,897	24,811
Current taxation		1,570	1,160
Debt securities issued		863	1,007
- Designated at fair value through profit or loss	24	706	851
- At amortised cost		157	156
Deferred tax liabilities	30	471	551
Other liabilities	26	47,238	45,378
Loan capital	27	12,306	12,413
Total Liabilities		723,239	707,728
Share capital	1(d)	38,883	37,527
Reserves	31	52,932	51,955
Total equity attributable to owners of the parent		91,815	89,482
Additional equity instruments	32	8,894	8,894
Non-controlling interests		2,886	2,838
Total Equity		103,595	101,214
Total Equity and Liabilities		826,834	808,942

Consolidated Statement of Changes in Equity

	Share capital	Capital reserve – staff share options issued	Exchange revaluation reserve	Fair value reserve	Liability credit reserve	Revaluation reserve of bank premises	Capital reserve	General reserve	Other reserves ²	Retained profits	Total	Additional equity instruments	Non-controlling interests	Total equity
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1 st January, 2018	37,527	135	487	1,465	-	1,757	230	14,060	4,931	28,890	89,482	8,894	2,838	101,214
Impact of adopting HKFRS 9 at 1 January 2018 (Note 2)	-	-	-	(162)	(6)	-	-	-	-	(32)	(200)	-	-	(200)
Restated balance at 1 st January, 2018	37,527	135	487	1,303	(6)	1,757	230	14,060	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)	(241)	(4)	-	-	-	(58)	-	(803)	-	11	(792)
Total comprehensive income	-	-	(500)	(241)	(4)	-	-	-	(58)	3,992	3,189	-	38	3,227
Shares issued in lieu of dividend (Note 1(d))	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	(12)	-	-	-	-	728	(6)	48	(770)	-	-	-	-
Distribution/Dividends declared or approved during the period (Note 1(c))	-	-	-	-	-	-	-	-	-	(2,017)	(2,017)	-	(45)	(2,062)
Change of ownership in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	55	55
At 30 th June, 2018	38,883	140	(13)	1,062	(10)	1,757	958	14,054	4,921	30,063	91,815	8,894	2,886	103,595
At 1 st January, 2017	35,490	124	(2,275)	1,359	-	1,728	230	14,035	5,293	22,447	78,431	5,016	3,189	86,636
Changes in equity														
Profit for the period	-	-	-	-	-	-	-	-	-	6,220	6,220	-	1,113	7,333
Other comprehensive income	-	-	1,206	833	-	39	-	-	(86)	-	1,992	-	53	2,045
Total comprehensive income	-	-	1,206	833	-	39	-	-	(86)	6,220	8,212	-	1,166	9,378
Issue of additional equity instruments ¹	-	-	-	-	-	-	-	-	-	-	-	3,878	-	3,878
Shares issued in lieu of dividend	616	-	-	-	-	-	-	-	-	-	616	-	-	616
Shares issued under Staff Share Option Schemes	26	-	-	-	-	-	-	-	-	-	26	-	-	26
Equity settled share-based transaction	-	19	-	-	-	-	-	-	-	-	19	-	-	19
Transfer	4	(12)	-	-	-	(16)	-	7	66	(49)	-	-	-	-
Distribution/Dividends declared or approved during the period (Note 1(c))	-	-	-	-	-	-	-	-	-	(1,002)	(1,002)	-	(1,422)	(2,424)
Change of ownership in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(18)	(18)
Decrease in non-controlling interests arising from capital reduction of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(135)	(135)
At 30 th June, 2017	36,136	131	(1,069)	2,192	-	1,751	230	14,042	5,273	27,616	86,302	8,894	2,780	97,976

- During first half 2017, the Bank issued HK\$3,892 million (USD500 million) undated non-cumulative subordinated Additional Tier 1 capital securities ("AT1"). Direct issuance costs of HK\$14 million are accounted for as a deduction from the equity instruments.
- Other reserves include statutory reserve and other reserves.

Condensed Consolidated Cash Flow Statement

	Notes	6 months ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 HK\$ Mn
NET CASH OUTFLOW FROM OPERATIONS		(10,995)	(3,420)
Income tax paid			
Hong Kong profits tax paid		(2)	(164)
Outside Hong Kong profits tax paid		(469)	(388)
NET CASH USED IN OPERATING ACTIVITIES		(11,466)	(3,972)
INVESTING ACTIVITIES			
Dividends received from associates		6	44
Dividends received from non-trading equity securities		8	14
Purchase of non-trading equity securities		(1,187)	(1,309)
Proceeds from sale of non-trading equity securities		1,092	1,013
Purchase of fixed assets		(203)	(174)
Proceeds from disposal of other properties and equipment		15	25
Proceeds from sale of disposal groups and assets held for sale		49	228
Proceeds from sale of discontinued operations		-	5,947
Increase of shareholding in associates		(111)	(1,483)
Change of ownership in subsidiaries		-	(18)
Decrease in non-controlling interests arising from capital reduction of a subsidiary		-	(135)
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		(331)	4,152
FINANCING ACTIVITIES			
Ordinary dividends paid		(434)	(1,563)
Distribution to Hybrid/Additional Tier 1 issue holders	1(c)	(357)	(245)
Issue of ordinary share capital		73	26
Issue of additional equity instruments		-	3,892
Issue of certificates of deposit		46,579	36,183
Issue of debt securities		113	295
Redemption of certificates of deposit issued		(32,448)	(28,811)
Redemption of loan capital		-	(3,903)
Redemption of debt securities issued		(266)	(6,570)
Interest paid on loan capital		(314)	(517)
Interest paid on certificates of deposit issued		(367)	(316)
Interest paid on debt securities issued		(15)	(99)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		12,564	(1,628)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		767	(1,448)
CASH AND CASH EQUIVALENTS AT 1 ST JANUARY		89,980	75,841
Effect of foreign exchange rate changes		(934)	2,472
CASH AND CASH EQUIVALENTS AT 30 TH JUNE	33	89,813	76,865
Cash flows from operating activities included:			
Interest received		11,673	10,509
Interest paid		5,836	5,373
Dividend received		37	38

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 2017 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 31st December, 2017 that is included in the interim financial report as comparative information does not constitute the Bank’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31st December 2017 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 and profit from continuing operations attributable to owners of the parent of HK\$3,635 million and HK\$3,635 million (six months ended 30th June, 2017: HK\$5,975 million and HK\$2,926 million) respectively after the distribution of HK\$357 million (six months ended 30th June, 2017: HK\$245 million) to Hybrid/Additional Tier 1 issue holders, and on the weighted average of 2,786 million (six months ended 30th June, 2017: 2,714 million) ordinary shares outstanding during the six months ended 30th June, 2018.
- (ii) The calculation of diluted earnings per share is based on the consolidated profit for the period and profit from continuing operations attributable to owners of the parent of HK\$3,635 million and HK\$3,635 million (six months ended 30th June, 2017: HK\$5,975 million and HK\$2,926 million) respectively after the distribution of HK\$357 million (six months ended 30th June, 2017: HK\$245 million) to Hybrid/Additional Tier 1 issue holders, and on 2,787 million (six months ended 30th June, 2017: 2,714 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30th June, 2018, adjusted for the effects of all dilutive potential shares.

(c) Distribution/Dividends

- (i) Dividends payable to equity owners of the parent attributable to the interim period

	6 months ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 HK\$ Mn
Interim dividend declared after the interim period of HK\$0.51 per share on 2,808 million shares (six months ended 30 th June, 2017: HK\$0.68 per share on 2,726 million shares)	1,432	1,854

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 ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 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\$0.60 per share (2017: HK\$0.28 per share)	1	-
Second interim dividend of HK\$0.60 per share on 2,765 million shares (2017: HK\$0.28 per share on 2,703 million shares)	1,659	757
	<u>1,660</u>	<u>757</u>

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

	6 months ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 HK\$ Mn
Interest paid or payable on the Hybrid Tier 1 capital instruments	106	105
Amount paid on the Additional Tier 1 capital instruments	251	140
	<u>357</u>	<u>245</u>

(d) Share Capital

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

	At 30 th June, 2018		At 31 st December, 2017	
	No. of shares		No. of shares	
	Mn	HK\$ Mn	Mn	HK\$ Mn
Ordinary shares, issued and fully paid:				
At 1st January	2,765	37,527	2,703	35,490
Shares issued under Staff Share Option Schemes	3	73	3	93
Transfer of the fair value of options from capital reserve – share options issued	-	12	-	17
Share issued in lieu of dividend	40	1,271	59	1,927
At 30 th June/31 st December	<u>2,808</u>	<u>38,883</u>	<u>2,765</u>	<u>37,527</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 31st December, 2017.

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 31st December, 2018.

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers
- HK(IFRIC) 22, Foreign currency transactions and advance consideration

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to presentation of contract assets and contract liabilities.

(a) HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by HKFRS 9, the Group has elected to continue to apply the hedge accounting requirements of HKAS 39.

The key changes to the Group's accounting policies resulting from its adoption of HKFRS 9 are summarised below.

Classification of financial assets and financial liabilities

HKFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. Classification of a financial asset under HKFRS 9 is generally based on the business model in which the financial asset is managed and the contractual cash flows of the financial asset. For an equity instrument which is not held for trading at initial recognition, an irrevocable election can be made to present subsequent changes in fair value of the equity instrument in OCI. Cumulative gains and losses recognised in OCI are not recycled to profit or loss upon derecognition of the equity instrument, in contrast to debt instrument measured at FVOCI where recycling of cumulative gains and losses to profit or loss upon derecognition is permitted. For derivatives embedded in contracts where the host is a financial asset in the scope of the standard, they are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. The standard removes the HKAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

HKFRS 9 largely retains the requirements in HKAS 39 for the classification of financial liabilities. Although all fair value changes of liabilities designated under the fair value option were recognised in profit or loss under HKAS 39, fair value changes are generally presented under HKFRS 9 as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The following table shows the original measurement categories in accordance with HKAS 39 and the new measurement categories under HKFRS 9 for the Group's financial assets as at 1st January, 2018.

There is no change in the measurement categories for the Group's financial liabilities between HKAS 39 and HKFRS 9 as at 1st January, 2018.

		Original classification under HKAS 39	New classification under HKFRS 9	Original carrying amount under HKAS 39 HK\$ Mn	New carrying amount under HKFRS 9 HK\$ Mn
	Notes				
Cash and balances with banks and other financial institutions		Loans and receivables	Amortised cost	55,696	55,684
Placements with and advances to banks and other financial institutions	17	Loans and receivables	Amortised cost	58,583	58,577
Trade bills	18	Loans and receivables	Amortised cost	3,896	3,887
Trade bills ^a	18	Loans and receivables	FVOCI	10,013	10,033
Trading assets	19	FVTPL	(mandatory) FVTPL	6,956	6,956
Derivative assets	37(a)	FVTPL	(mandatory) FVTPL	11,335	11,335
Loans and advances to customers	20	Loans and receivables	Amortised cost	470,339	470,738
Investment securities – debt	21	FVTPL	FVTPL	3,125	3,125
Investment securities – debt ^b	21	(designated) FVTPL	(mandatory) FVTPL	754	754
Investment securities – debt ^c	21	Available-for-sale	Amortised cost	8,512	8,328
Investment securities – debt	21	Available-for-sale	FVOCI	100,532	100,532
Investment securities – debt ^d	21	Available-for-sale	(mandatory) FVTPL	7,690	7,690
Investment securities – debt	21	Held-to-maturity investments	Amortised cost	9,720	9,701
Investment securities – debt ^d	21	Held-to-maturity investments	FVTPL	78	81
Investment securities – debt ^d	21	Loans and receivables	(mandatory) FVTPL	133	132
Investment securities – equity ^b	21	FVTPL	FVTPL	166	166
Investment securities – equity	21	(designated) Available-for-sale	(mandatory) FVTPL	2,697	2,697
Investment securities – equity ^e	21	Available-for-sale	FVOCI	345	345
Investment securities – investment fund ^b	21	FVTPL	FVTPL	124	124
Investment securities – investment fund	21	(designated) Available-for-sale	(mandatory) FVTPL	549	549
Other assets(excluding assets held for sale)	23	Loans and receivables	Amortised cost	32,493	32,436
Total financial assets				<u>783,736</u>	<u>783,870</u>

- a. Certain trade bills are reclassified to FVOCI because they are held within a business model in which they are managed to meet everyday liquidity needs and often results in sales activity that is significant in value. The Group considers that under HKFRS 9 such portfolios of trade bills are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- b. Before the adoption of HKFRS 9, certain investment securities were designated as at FVTPL because they are managed and their performance is evaluated on a fair value basis or derivatives are held to manage specific risk of these securities and the designation eliminated or significantly reduced an accounting mismatch that would otherwise arise. Under HKFRS9, these securities meet the criteria of mandatory measurement at FVTPL because the contractual cash flows of these securities are not solely payments of principal and interest on the principal outstanding.
- c. Certain debt securities are held by the Group in a separate portfolio for long-term yield purposes. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect contractual cash flows. These securities are classified as measured at amortised cost under HKFRS 9.
- d. Investment securities are held by the Group in a separate portfolio for long-term yield purposes but the contractual cash flows are not solely payments of principal and interest on the principal outstanding. These securities are therefore mandatorily measured at FVTPL under HKFRS 9.
- e. Certain available-for-sale equity investments held by the Group for strategic purpose have been designated under HKFRS 9 as at FVOCI.

The following table reconciles the carrying amounts under HKAS 39 to the carrying amounts under HKFRS 9 on transition to HKFRS 9 on 1st January, 2018:

	HKAS 39 carrying amount 31 December 2017 HK\$ Mn	Reclassification HK\$ Mn	Remeasurement HK\$ Mn	HKFRS 9 carrying amount 1 January 2018 HK\$ Mn
Financial assets				
Amortised cost				
Cash and balances with banks and other financial institutions				
Opening balance	55,696			
Remeasurement			(12)	
Closing balance				55,684
Placements with and advances to banks and other financial institutions				
Opening balance	58,583			
Remeasurement			(6)	
Closing balance				58,577
Trade bills				
Opening balance	13,909			
To Trade Bills at FVOCI		(10,013)		
Remeasurement			(9)	
Closing balance				3,887
Loans and advances to customers				
Opening balance	470,339			
Remeasurement			399	
Closing balance				470,738
Investment securities				
Opening balance	9,931			
From available-for-sale		8,512		
To FVTPL		(211)		
Remeasurement			(203)	
Closing balance				18,029
Other assets				
Opening balance	32,493			
Remeasurement			(57)	
Closing balance				32,436
Total amortised cost				639,351

	HKAS 39 carrying amount 31 December 2017 HK\$ Mn	Reclassification HK\$ Mn	Remeasurement HK\$ Mn	HKFRS 9 carrying amount 1 January 2018 HK\$ Mn
Financial assets				
Available-for-sale				
Investment securities				
Opening balance	120,325			
To FVOCI - debt		(100,528)		
To FVOCI - equity		(349)		
To FVTPL		(10,936)		
To amortised cost		(8,512)		
Closing balance				-
Trade Bills at FVOCI				
Trade Bills				
Opening balance	-			
From amortised cost		10,013		
Remeasurement			20	
Closing balance				10,033
FVOCI - debt				
Investment securities				
Opening balance	-			
From available-for-sale		100,528		
Closing balance				100,528
FVOCI - equity				
Investment securities				
Opening balance	-			
From available-for-sale		349		
Closing balance				349
Total FVOCI				110,910
FVTPL				
Trading assets	6,956			6,956
Derivative assets	11,335			11,335
Investment securities				
Opening balance	4,169			
From available-for-sale		10,936		
From amortised cost		211		
Remeasurement			2	
Closing balance				15,318
Total FVTPL				33,609

The following table shows the effects of the reclassification of financial assets from HKAS 39 categories into the amortised cost category under HKFRS 9.

Financial assets	HK\$ Mn
From available-for-sale financial assets under HKAS 39	
Fair value at 30 th June, 2018	7,064
Fair value gain/(loss) that would have been recognised during 2018 in OCI if the financial assets had not been reclassified	(149)

Impairment of financial assets

HKFRS 9 replaces the 'incurred loss' model in HKAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under HKFRS 9, credit losses are recognised earlier than under HKAS 39.

The Group recognises impairment allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued;
- loan commitments issued; and
- contract assets

No impairment loss is recognised on equity investments.

The Group measures impairment allowances for 12-month or lifetime ECL using a 3-stage approach as follows:-

Stage	Description	Impairment Loss
1	Performing	12-month ECL
2	Performing but with credit risk increased significantly at reporting date since its initial recognition	Lifetime ECL
3	Non-performing	Lifetime ECL

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses under different economic scenarios. They are measured as:

$$\text{Exposure at Default} \times \text{Probability of Default} \times \text{Loss Given Default}$$

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes but not limited to the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

Presentation of allowance for ECL in the statement of financial position

Impairment allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision on the liabilities side; and
- debt instruments measured at FVOCI: no impairment allowance is presented in the statement of financial position because the carrying amount of these assets is their fair value, inclusive of any ECL. However, the impairment allowance is recognised in the fair value reserve and disclosed separately.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The following table reconciles the closing impairment allowance for financial assets in accordance with HKAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as at 31st December, 2017 to the opening ECL allowance determined in accordance with HKFRS 9 as at 1st January, 2018.

	31 December 2017 (HKAS 39 / HKAS 37)	Reclassification	Remeasurement	1 January 2018 (HKFRS 9)
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Loans and receivables and held to maturity investments under HKAS 39 / financial assets at amortised cost under HKFRS 9	3,454	-	(297)	3,157
Available-for-sale debt securities under HKAS 39 reclassified to amortised cost under HKFRS 9	-	-	58	58
	3,454	-	(239)	3,215
Available-for-sale debt securities under HKAS 39 / debt securities at FVOCI under HKFRS 9	-	-	212	212
Loans and receivables at amortised cost under HKAS 39 reclassified to FVOCI under HKFRS 9	-	-	18	18
	3,454	-	(9)	3,445
Loan commitments and financial guarantee contracts issued	-	-	164	164
Total	3,454	-	155	3,609

Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below.

- Information relating to comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1st January, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 and therefore is not comparable to the information presented for 2018 under HKFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
 - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of HKFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

The following table analyses the impact, net of tax, of transition of HKFRS 9 on reserve and retained earnings. The impact relates to liability credit reserve, the fair value reserve and retained earnings. There is no impact on other component of equity.

	Impact of adopting HKFRS 9 at 1 January 2018 HK\$ Mn
Liability credit reserve	
Closing balance under HKAS 39 (31 st December, 2017)	-
Change of credit risk for financial liabilities designated at FVTPL	(6)
Opening balance under HKFRS 9 (1 st January, 2018)	(6)
Fair value reserve	
Closing balance under HKAS 39 (31 st December, 2017)	1,465
Reclassification of investment securities (debt) from AFS to amortised cost	(105)
Reclassification of investment securities (debt, equity and investment fund) from AFS to FVTPL	(270)
Reclassification of trade bills from amortised cost to FVOCI	15
Recognition of expected credit losses under HKFRS 9 for debt financial assets at FVOCI	198
Opening balance under HKFRS 9 (1 st January, 2018)	1,303
Retained earnings	
Closing balance under HKAS 39 (31 st December, 2017)	28,890
Reclassification under HKFRS 9	278
Own credit risk of financial liabilities	6
Recognition of expected credit losses under HKFRS 9 (including loan commitments and financial guarantee contracts)	(243)
Impact from investment in associates	(73)
Opening balance under HKFRS 9 (1 st January, 2018)	28,858

(b) HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group performed an assessment of the new standard and concluded that the current treatment of revenue from contracts with customers is consistent with the new principles. Except for the change in presentation of contract assets and liabilities, the adoption of HKFRS 15 does not have any material impact on the financial position and there is no transitional impact to retained earnings. Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before receiving the consideration or being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. The contract asset is transferred to receivables when the right to consideration becomes unconditional. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognise the related revenue. For the relevant disclosure on contract assets and liabilities, please refer to Notes 23 and 26.

(c) HK(IFRIC) 22, Foreign Currency Transactions and Advance Consideration

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

3. Interest Income

	6 months ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 HK\$ Mn
CONTINUING OPERATIONS		
Loans, deposits with banks and financial institutions, and trade bills	10,262	8,877
Investment securities		
- at amortised cost or FVOCI (2017: held-to-maturity or available-for-sale)	1,660	1,443
- designated at FVTPL	53	83
- mandatory at FVTPL	119	-
Trading assets	89	56
	<u>12,183</u>	<u>10,459</u>

The above included HK\$11,943 million (six months ended 30th June, 2017: HK\$10,437 million) interest income, before hedging effect, for financial assets that are not recognised at fair value through profit or loss.

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.

For the period ended 30th June 2018, interest income accrued on impaired financial assets was HK\$128 million (six months ended 30th June, 2017: HK\$173 million).

4. Interest Expense

	6 months ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 HK\$ Mn
CONTINUING OPERATIONS		
Customer deposits, deposits of banks and other financial institutions		
- at amortised cost	5,159	3,923
- designated at FVTPL	18	-
Certificates of deposit and debt securities issued		
- at amortised cost	323	268
- designated at FVTPL	129	88
Subordinated notes carried at amortised cost	300	438
Other borrowings	4	3
	<u>5,933</u>	<u>4,720</u>

The above included HK\$5,801 million (six months ended 30th June, 2017: HK\$4,682 million) interest expense, before hedging effect, for financial liabilities that are not recognised at fair value through profit or loss.

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.

5. Fee and Commission Income

Fee and commission income is disaggregated by services:

	6 months ended 30/6/2018	6 months ended 30/6/2017 Restated
	HK\$ Mn	HK\$ Mn
CONTINUING OPERATIONS		
Credit cards	525	484
Loans, overdrafts and guarantees	343	351
Other retail banking services	194	166
Securities and brokerage	179	112
Trade finance	164	166
Trust and other fiduciary activities	152	115
Investment products	78	44
Financial consultancy	43	17
Others	257	253
Total fee and commission income	1,935	1,708
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	1,229
Fee income	1,935	1,708
Fee expenses	(556)	(479)

6. Net Trading Profits

	6 months ended 30/6/2018	6 months ended 30/6/2017
	HK\$ Mn	HK\$ Mn
CONTINUING OPERATIONS		
Profit/(Loss) on dealing in foreign currencies and funding swaps	310	(518)
Profit on trading securities	83	315
Net gain on derivatives	134	366
Dividend income from trading equity securities	29	24
	556	187

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

	6 months ended 30/6/2018	6 months ended 30/6/2017
	HK\$ Mn	HK\$ Mn
CONTINUING OPERATIONS		
Net result from financial Instruments designated at FVTPL		
- Revaluation gain on debts issued	2	5
- Revaluation loss on financial assets/liabilities	(28)	(9)
- Loss on sale of financial assets	(2)	-
Net result from financial Instruments mandatorily measured at FVTPL (other than those included in net trading profits)		
- Revaluation loss on financial assets	(136)	-
- Profit on sale of financial assets	15	-
- Dividend/Distribution income from non-trading equity securities	7	-
	(142)	(4)

8. Net Hedging Profit/(Loss)

	6 months ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 HK\$ Mn
CONTINUING OPERATIONS		
Fair value hedges		
- Net (loss)/profit on hedged items attributable to the hedged risk	(394)	263
- Net profit/(loss) on hedging instruments	410	(265)
	<u>16</u>	<u>(2)</u>

There was insignificant ineffectiveness recognised in the Group's income statement arising from cash flow hedge for the six months ended 30th June, 2018 and 30th June, 2017.

9. Net Insurance Revenue

	6 months ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 HK\$ Mn
CONTINUING OPERATIONS		
(a) Net insurance revenue		
Net interest income	252	216
Net trading profits	41	51
Net profits from other financial instruments designated at FVTPL	-	32
Net loss from other financial instruments mandatory at FVTPL	(139)	-
Net hedging loss	(8)	(12)
Net insurance premium	2,833	3,033
Other operating income	-	1
	<u>2,979</u>	<u>3,321</u>
Net insurance claims and expenses	(c) <u>(2,727)</u>	<u>(3,171)</u>
	252	150
Operating expenses	(1)	(2)
Write-back of/(Charge for) impairment loss on financial instruments	3	(2)
Net profit on sale of available-for-sale financial assets	-	97
Net profit on sale of debt investment securities at FVOCI	10	-
	<u>264</u>	<u>243</u>
(b) Net insurance premium		
Gross insurance premium income (Note)	2,863	3,063
Reinsurer's share of gross insurance premium income	(30)	(30)
	<u>2,833</u>	<u>3,033</u>
(c) Net insurance claims and expenses		
Claims, benefits and surrenders paid	1,771	2,468
Movement in provisions	903	682
	<u>2,674</u>	<u>3,150</u>
Reinsurers' share of claim, benefits and surrenders paid	(342)	(907)
Reinsurers' share of movement in provisions	315	851
	<u>(27)</u>	<u>(56)</u>
	2,647	3,094
Net insurance commission expenses	80	77
	<u>2,727</u>	<u>3,171</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 ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 HK\$ Mn
CONTINUING OPERATIONS		
Dividend income from available-for-sale financial assets	-	14
Dividend income from equity securities measured at FVOCI	8	-
Rental from safe deposit boxes	54	42
Rental income on properties	89	78
Others	69	50
	<u>220</u>	<u>184</u>

11. Operating Expenses

	6 months ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 Restated ^{Note} HK\$ Mn
CONTINUING OPERATIONS		
Contributions to defined contribution plan		
- Hong Kong	72	71
- Outside Hong Kong	119	107
Equity-settled share-based payment expenses	17	19
Salaries and other staff costs	<u>2,310</u>	<u>2,078</u>
Total staff costs	<u>2,518</u>	<u>2,275</u>
Premises and equipment expenses excluding depreciation		
- Rental of premises	266	288
- Maintenance, repairs and others	<u>303</u>	<u>281</u>
Total premises and equipment expenses excluding depreciation	<u>569</u>	<u>569</u>
Depreciation on fixed assets	240	230
Amortisation of intangible assets	7	16
Other operating expenses		
- Legal and professional fees	180	191
- Communications, stationery and printing	127	128
- Advertising expenses	86	111
- Stamp duty, withholding taxes and value added taxes	70	55
- Card related expenses	68	15
- Business promotions and business travel	58	56
- Insurance expenses	54	47
- Internet platform charges	33	-
- Donations	9	2
- Membership fees	8	7
- Bank charges	5	5
- Bank licence	2	2
- Others	<u>152</u>	<u>130</u>
Total other operating expenses	<u>852</u>	<u>749</u>
Total operating expenses	<u>4,186</u>	<u>3,839</u>

Note: To better reflect the expenses nature, HK\$64 million card related expenses related to credit card loyalty programme was reclassified to fee and commission expense. Corresponding restatements have also been reflected in Consolidated Income Statement and Notes 5 and 28.

12. Impairment Losses on Financial Instruments

	6 months ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 HK\$ Mn
CONTINUING OPERATIONS		
Loans and advances to customers	298	760
Others	(16)	5
	<u>282</u>	<u>765</u>

13. Net Profit on Sale of Available-for-Sale Financial Assets

	6 months ended 30/6/2017 HK\$ Mn
CONTINUING OPERATIONS	
Net revaluation gain transferred from reserves	220
Loss arising in the period	(5)
	<u>215</u>

14. Net Profit on Sale of Financial Assets at FVOCI

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

15. Net Loss on Disposal of Fixed Assets

	6 months ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 HK\$ Mn
CONTINUING OPERATIONS		
Net loss on disposal of investment properties	(1)	-
Net loss on disposal of bank premises, furniture, fixtures and equipment	(9)	(7)
	<u>(10)</u>	<u>(7)</u>

16. Income Tax

Taxation in the consolidated income statement represents:

	6 months ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 HK\$ Mn
CONTINUING OPERATIONS		
Current tax – Hong Kong		
Tax for the year	432	292
Under-provision in respect of prior years	3	18
	<u>435</u>	<u>310</u>
Current tax – outside Hong Kong		
Tax for the year	248	361
Under/(over)-provision in respect of prior years	207	(76)
	<u>455</u>	<u>285</u>
Deferred tax		
Origination and reversal of temporary differences	(128)	(21)
	<u>762</u>	<u>574</u>

The provision for Hong Kong profits tax is calculated at 16.5% (six months ended 30th June, 2017: 16.5%) of the estimated assessable profits for the six months ended 30th June, 2018.

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

17. Placements with and Advances to Banks and Other Financial Institutions

	30/6/2018 HK\$ Mn	31/12/2017 Restated ^{Note} HK\$ Mn
Placements with and advances to banks and other financial institutions		
Maturing		
- within one month	53,846	47,996
- after one month but within one year	12,467	10,587
- after one year	78	-
	<u>66,391</u>	<u>58,583</u>
Less: Impairment allowances	(10)	-
- Stage 1	(10)	-
- Stage 2	-	-
- Stage 3	-	-
	<u>66,381</u>	<u>58,583</u>
Of which:		
Placements with and advances to central banks	-	-

Note: To better reflect the transaction nature, reverse repurchase transactions with banks and other financial institutions of HK\$4,974 million was reclassified to Placements with and advances to banks and other financial institutions from Cash and balances with banks and other financial institutions. Corresponding restatements have also been reflected in Consolidated Statement of Financial Position, Notes 29 and 33.

18. Trade Bills

	30/6/2018 HK\$ Mn	31/12/2017 HK\$ Mn
At amortised cost	3,046	13,910
Less: Impairment allowances	(5)	(1)
- Stage 1	(3)	-
- Stage 2	(1)	-
- Stage 3	(1)	-
- Individual	-	(1)
	<u>3,041</u>	<u>13,909</u>
At FVOCI	13,387	-
	<u>16,428</u>	<u>13,909</u>

19. Trading Assets

	30/6/2018 HK\$ Mn	31/12/2017 HK\$ Mn
Treasury bills (including Exchange Fund Bills)	649	2,218
Debt securities	4,387	1,781
Equity securities	1,871	2,953
Investment funds	3	4
	<u>6,910</u>	<u>6,956</u>

20. Loans and Advances to Customers

(a) Loans and advances to customers

	30/6/2018 HK\$ Mn	31/12/2017 HK\$ Mn
Loans and advances to customers at amortised cost	491,098	473,776
Less: Impairment allowances	(2,293)	(3,437)
- Stage 1	(660)	-
- Stage 2	(575)	-
- Stage 3	(1,058)	-
- Individual	-	(1,059)
- Collective	-	(2,378)
	<u>488,805</u>	<u>470,339</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.

	30/6/2018		31/12/2017	
	Gross advances	% of gross advances covered by collateral	Gross advances	% of gross advances covered by collateral
	HK\$ Mn	%	HK\$ Mn	%
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	23,549	59.12	20,280	70.18
- Property investment	38,636	90.07	37,359	92.71
- Financial concerns	15,511	66.64	12,489	66.06
- Stockbrokers	4,787	87.60	6,899	90.20
- Wholesale and retail trade	8,302	58.99	8,831	63.00
- Manufacturing	2,098	42.48	2,123	40.31
- Transport and transport equipment	4,789	62.85	4,976	65.45
- Recreational activities	128	73.21	176	71.30
- Information technology	2,450	0.91	2,747	1.26
- Others	21,530	72.44	25,876	67.63
- Sub-total	<u>121,780</u>	<u>72.07</u>	<u>121,756</u>	<u>74.48</u>
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,049	100.00	1,064	100.00
- Loans for the purchase of other residential properties	50,247	100.00	42,803	100.00
- Credit card advances	4,138	0.00	4,644	0.00
- Others	37,485	87.17	34,034	87.14
- Sub-total	<u>92,919</u>	<u>90.37</u>	<u>82,545</u>	<u>89.07</u>
Total loans for use in Hong Kong	214,699	79.99	204,301	80.37
Trade finance	3,836	66.75	3,934	70.33
Loans for use outside Hong Kong*	<u>272,563</u>	<u>50.04</u>	<u>265,541</u>	<u>54.34</u>
Total advances to customers	<u>491,098</u>	<u>63.26</u>	<u>473,776</u>	<u>65.70</u>

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

	30/6/2018		31/12/2017	
	Gross advances	% of gross advances covered by collateral	Gross advances	% of gross advances covered by collateral
	HK\$ Mn	%	HK\$ Mn	%
Property development	46,580	54.96	44,416	54.04
Property investment	28,570	90.57	29,176	92.32
Financial concerns	35,640	3.77	33,431	6.24
Wholesale and retail trade	11,109	53.80	13,058	58.37
Manufacturing	6,608	31.05	7,176	30.41
Loans for the purchase of other residential properties	14,446	88.86	15,181	99.94
Others	39,738	28.12	38,716	33.62
	<u>182,691</u>	<u>46.45</u>	<u>181,154</u>	<u>50.24</u>

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:

	30/6/2018	31/12/2017
	HK\$ Mn	HK\$ Mn
(i) Property development		
a. Individually impaired loans	453	316
b. Specific provisions	-	-
c. Collective provisions	138	420
d. New provision charged to income statement	30	92
e. Written off	52	26
(ii) Property investment		
a. Individually impaired loans	511	792
b. Specific provisions	211	113
c. Collective provisions	353	425
d. New provision charged to income statement	302	197
e. Written off	171	118
(iii) Loans for purchase of residential properties		
a. Individually impaired loans	297	296
b. Specific provisions	3	3
c. Collective provisions	85	214
d. New provision charged to income statement	28	12
e. Written off	8	4
(iv) Wholesale and retail trade		
a. Individually impaired loans	771	1,084
b. Specific provisions	202	368
c. Collective provisions	97	180
d. New provision charged to income statement	85	666
e. Written off	348	438
(v) Hotels		
a. Individually impaired loans	1,096	1,189
b. Specific provisions	177	258
c. Collective provisions	79	69
d. New provision charged to income statement	117	62
e. Written off	33	99

The specific provisions represent lifetime expected credit loss provisions (2017: individual impairment allowance) for credited impaired exposures and the collective provisions represent the 12-month and lifetime expected credit loss provisions (2017: collective impairment allowance) 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 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 impairment provisions follow the terminology used by the HKMA.

	30/6/2018				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Specific provisions	Collective provisions
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	220,296	1,096	1,938	374	326
Mainland China	203,302	1,816	2,473	633	795
Other Asian Countries and Regions	26,785	118	195	51	71
Others	40,715	-	25	-	43
Total	491,098	3,030	4,631	1,058	1,235
% of total advances to customers			0.94%		
Market value of collateral held against impaired advances to customers			3,766		
	31/12/2017				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Specific provisions	Collective provisions
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	207,523	1,746	1,997	336	498
Mainland China	203,128	2,039	2,758	682	1,721
Other Asian Countries and Regions	27,456	191	390	41	68
Others	35,669	1	32	-	91
Total	473,776	3,977	5,177	1,059	2,378
% of total advances to customers			1.09%		
Market value of collateral held against impaired advances to customers			4,329		

The specific provisions represent lifetime expected credit loss provisions (2017: individual impairment allowance) for credit impaired exposures and the collective provisions represent the 12-month and lifetime expected credit loss provisions (2017: collective impairment allowance) for non-credit impaired exposures.

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.

21. Investment Securities

30/6/2018				
	Mandatorily measured at FVTPL	Designated at FVTPL	Measured at FVOCI	Measured at amortised cost
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Total	HK\$ Mn			
Treasury bills (including Exchange Fund Bills)	-	-	23,700	1,897
Certificates of deposits held	-	-	1,127	1,128
Debt securities	10,889	1,726	73,201	15,277
Equity securities	2,951	-	603	-
Investment funds	914	-	-	-
	<u>14,754</u>	<u>1,726</u>	<u>98,631</u>	<u>18,302</u>
				<u>133,413</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

At 1st January, 2018, the Group designated certain equity securities as shown in the following table at FVOCI. In 2017, these investments were classified as available-for-sale and measured at fair value. The FVOCI designation was made because the investments are expected to be held for long-term strategic purposes.

6 months ended 30/6/2018	
Fair value at 30/6/2018	Dividend income recognised
HK\$ Mn	HK\$ Mn
Aberdeen Restaurant Enterprises Limited	2
EPS Company (Hong Kong) Limited	45
Joint Electronic Teller Services Ltd.	18
Nova Credit Limited	11
OTC Clearing Hong Kong Limited	6
TransUnion Limited	64
China UnionPay Co., Ltd.	448
Euroclear Plc	7
Society For World-Wide Interbank Financial Telecommunication	2
	<u>603</u>
	<u>8</u>

31/12/2017				
	Designated at FVTPL	Available-for- sale	Held-to- maturity	Loans and receivables
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Total	HK\$ Mn			
Treasury bills (including Exchange Fund Bills)	-	27,024	1,699	-
Certificates of deposits held	-	1,150	1,269	-
Debt securities	3,879	88,560	6,830	133
Equity securities	166	3,042	-	-
Investment funds	124	549	-	-
	<u>4,169</u>	<u>120,325</u>	<u>9,798</u>	<u>133</u>
				<u>134,425</u>

22. Fixed Assets

	30/6/2018				
	Investment <u>properties</u> HK\$ Mn	Bank <u>premises</u> HK\$ Mn	Furniture, fixtures and <u>equipment</u> HK\$ Mn	<u>Sub-total</u> HK\$ Mn	<u>Total</u> HK\$ Mn
Cost or valuation					
At 1 st January, 2018	5,107	8,193	5,149	13,342	18,449
Additions	-	6	197	203	203
Revaluation surplus	394	-	-	-	394
Disposals	-	(22)	(102)	(124)	(124)
Revaluation surplus on bank premises upon transfer to investment properties	-	8	-	8	8
Transfer from bank premises to investment properties	16	(16)	-	(16)	-
Transfer from investment properties to bank premises	(151)	151	-	151	-
Less: Elimination of accumulated depreciation on revalued bank premises	-	(1)	-	(1)	(1)
Exchange adjustments	-	(62)	(26)	(88)	(88)
At 30 th June, 2018	5,366	8,257	5,218	13,475	18,841
Accumulated depreciation and amortisation					
At 1 st January, 2018	-	1,874	3,825	5,699	5,699
Charge for the period	-	81	159	240	240
Elimination of accumulated depreciation on revalued bank premises	-	(1)	-	(1)	(1)
Written off on disposal	-	(8)	(91)	(99)	(99)
Exchange adjustments	-	(16)	(22)	(38)	(38)
At 30 th June, 2018	-	1,930	3,871	5,801	5,801
Net book value at 30 th June, 2018	5,366	6,327	1,347	7,674	13,040
Net book value at 31 st December, 2017	5,107	6,319	1,324	7,643	12,750
The gross amounts of the above assets are stated:					
At cost	-	7,478	5,218	12,696	12,696
At Directors' valuation - 1989	-	779	-	779	779
At professional valuation - 2018	5,366	-	-	-	5,366
	5,366	8,257	5,218	13,475	18,841

23. Other Assets

	30/6/2018	31/12/2017 Restated ^{Note}
	HK\$ Mn	HK\$ Mn
Accrued interest	3,088	2,578
Customer liabilities under acceptances	19,263	18,309
Other accounts*	8,050	11,622
Less: Impairment allowances	(320)	(16)
- Stage 1	(39)	-
- Stage 2	(4)	-
- Stage 3	(277)	-
- Individual	-	(14)
- Collective	-	(2)
	30,081	32,493
Assets held for sale (Note 43)	463	466
	30,544	32,959

* Include nil contract assets (1/1/2018: nil) from contracts with customers under HKFRS 15.

Note: HK\$133 million of debt securities classified as loans and receivables were represented in Investment Securities (see Note 21) in order to conform to current period's presentation.

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

	30/6/2018	31/12/2017
	HK\$ Mn	HK\$ Mn
Deposits and balances of banks and other financial institutions	3,468	3,110
Certificates of deposits issued	13,918	11,655
Debt securities issued	706	851
	18,092	15,616

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.

	30/6/2018 HK\$ Mn
Balance at 1 st January	(6)
Recognised in other comprehensive income during the period	(4)
Balance at 30 th June	(10)

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

The carrying amount of financial liabilities designated as at FVTPL at 30th June, 2018 was HK\$56 million lower than the contractual amount due at maturity (31/12/2017: HK\$56 million lower).

25. Trading Liabilities

	30/6/2018 HK\$ Mn	31/12/2017 HK\$ Mn
Exchange fund bills sold	199	-
Shares sold	-	11
	<u>199</u>	<u>11</u>

26. Other Liabilities

	30/6/2018 HK\$ Mn	31/12/2017 HK\$ Mn
Accrued interest payable	3,284	3,187
Acceptance draft payable	19,263	18,309
Impairment allowances		
- Financial guarantee contracts issued	42	-
- Loan commitments issued	100	-
Liabilities held for sale (Note 43)	7	9
Other accounts*	24,542	23,873
	<u>47,238</u>	<u>45,378</u>

* Include contract liabilities of HK\$592 million (1/1/2018: HK\$508 million) from contracts with customers under HKFRS 15.

27. Loan Capital

	30/6/2018 HK\$ Mn	31/12/2017 HK\$ Mn
Subordinated notes, at amortised cost with fair value hedge adjustments		
USD600 million fixed rate subordinated notes due 16 th July, 2020 (1)	4,715	4,769
USD500 million fixed rate subordinated notes due 20 th November, 2024 (2)	3,868	3,876
USD500 million fixed rate subordinated notes due 3 rd November, 2026 (3)	3,723	3,768
	<u>12,306</u>	<u>12,413</u>

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities during the period/year ended 30th June, 2018 and 31st December, 2017.

- (1) Two tranches of loan capital of face value totalling HK\$4,708 million (USD600 million) and carrying amount totalling HK\$4,715 million (31/12/2017: HK\$4,769 million) were issued on 16th July, 2010 (USD450 million) and on 23rd 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 16th 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 2018 (first half 2017: HK\$2 million loss).
- (2) Loan capital of face value of HK\$3,923 million (USD500 million) and carrying amount of HK\$3,868 million (31/12/2017: HK\$3,876 million) represents 4.25% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 20th November, 2014 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 20th November, 2024. The notes are under fair value hedge accounting and hedge ineffectiveness of HK\$1 million loss was recorded in first half of 2018 (first half 2017: HK\$2 million profit).

- (3) Loan capital of face value of HK\$3,923 million (USD500 million) and carrying amount of HK\$3,723 million (31/12/2017: HK\$3,768 million) represents 4% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 3rd November, 2016 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 3rd November, 2026. The notes are under fair value hedge accounting and hedge ineffectiveness of HK\$2 million loss was recorded in first half of 2018 (first half 2017: HK\$0.4 million profit).

28. 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. No operating segments have been aggregated to form the following 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 banking operations mainly include insurance business, trust business, securities & futures broking, money lender activities and corporate financial advisory in Hong Kong.

Mainland China operations mainly include the back office unit for Mainland China operations in Hong Kong, all branches, 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.

Other businesses include property-related business, supporting units of Hong Kong operations, investment properties, bank premises, the net results of other subsidiaries in Hong Kong except for those subsidiaries which are included in other Hong Kong banking operations.

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 tangible assets, intangible assets and financial assets with the exception of interests in associates, deferred tax assets and other corporate assets. 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. Segment revenue and expenses do not include the Group's share of revenue and expenses arising from the activities of the Group's associates. Other than reporting inter-segment income, assistance provided by one segment to another, including sharing of assets, is not measured.

	Hong Kong banking operations								Total reportable segments	Inter-segment elimination		
	Personal banking	Corporate banking	Treasury markets	Wealth management	Financial institutions	Others	Mainland China operations	Overseas operations		Others	Inter-segment elimination	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn		HK\$ Mn	HK\$ Mn	HK\$ Mn
6 months ended 30 th June, 2018												
CONTINUING OPERATIONS												
Net interest income	1,887	948	84	223	9	86	1,764	810	5,811	437	2	6,250
Non-interest income/(expense)	446	211	5	226	11	363	550	150	1,962	491	(177)	2,276
Operating income	2,333	1,159	89	449	20	449	2,314	960	7,773	928	(175)	8,526
Operating expenses	(760)	(96)	(79)	(108)	(6)	(210)	(1,630)	(340)	(3,229)	(1,132)	175	(4,186)
Operating profit/(loss) before impairment losses	1,573	1,063	10	341	14	239	684	620	4,544	(204)	-	4,340
Impairment losses on financial instruments	(92)	(92)	(1)	9	(1)	-	(312)	207	(282)	-	-	(282)
Impairment losses on intangible assets	-	-	-	-	-	-	(1)	-	(1)	-	-	(1)
Operating profit/(loss) after impairment losses	1,481	971	9	350	13	239	371	827	4,261	(204)	-	4,057
Profit/(Loss) on sale of fixed assets, financial assets measured at FVOCI	(7)	-	44	-	-	-	2	-	39	-	-	39
Profit on sale of disposal groups and assets held for sale	-	-	-	-	-	-	-	10	10	-	-	10
Valuation gains on investment properties	-	-	-	-	-	-	-	-	-	394	-	394
Share of profits less losses of associates	-	-	-	-	-	-	41	240	281	-	-	281
Profit before taxation	1,474	971	53	350	13	239	414	1,077	4,591	190	-	4,781
Depreciation for the period	(32)	(1)	(2)	(1)	-	(8)	(105)	(15)	(164)	(76)	-	(240)
At 30 th June, 2018												
Segment assets	94,468	148,724	167,114	25,417	7,922	20,618	297,555	107,841	869,659	13,661	(66,270)	817,050
Investments in associates	-	-	-	-	-	53	3,492	5,776	9,321	-	-	9,321
Other assets – Assets held for sale	-	-	-	-	-	388	75	-	463	-	-	463
Total assets	94,468	148,724	167,114	25,417	7,922	21,059	301,122	113,617	879,443	13,661	(66,270)	826,834
Segment liabilities	319,597	738	59,501	21,212	5	16,850	249,287	97,480	764,670	2,440	(43,878)	723,232
Other liabilities – Liabilities held for sale	-	-	-	-	-	7	-	-	7	-	-	7
Total liabilities	319,597	738	59,501	21,212	5	16,857	249,287	97,480	764,677	2,440	(43,878)	723,239

	Hong Kong banking operations								Total reportable segments	Others	Inter-segment elimination	Total
	Personal banking	Corporate banking	Treasury markets	Wealth management	Financial institutions	Others	Mainland China operations	Overseas operations				
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn				
6 months ended 30 th June, 2017 (Restated)												
CONTINUING OPERATIONS												
Net interest income/(expense)	1,699	963	(177)	183	17	116	1,944	741	5,486	255	(2)	5,739
Non-interest income/(expense)	404	182	(83)	236	9	328	386	115	1,577	416	(167)	1,826
Operating income	2,103	1,145	(260)	419	26	444	2,330	856	7,063	671	(169)	7,565
Operating expenses	(771)	(88)	(64)	(99)	(5)	(224)	(1,422)	(281)	(2,954)	(1,054)	169	(3,839)
Operating profit/(loss) before impairment losses	1,332	1,057	(324)	320	21	220	908	575	4,109	(383)	-	3,726
Impairment losses on financial instruments	(75)	(169)	(2)	(1)	-	(6)	(510)	1	(762)	(3)	-	(765)
Impairment losses on assets held for sale	-	-	-	-	-	-	(58)	-	(58)	-	-	(58)
Operating profit/(loss) after impairment losses	1,257	888	(326)	319	21	214	340	576	3,289	(386)	-	2,903
Profit/(Loss) on sale of fixed assets, held-to-maturity investments and available-for-sale financial assets	(4)	5	213	-	-	2	(1)	-	215	(1)	-	214
Profit/(Loss) on sale of disposal groups and assets held for sale	-	-	-	-	-	-	(2)	-	(2)	192	-	190
Profit on disposal of subsidiaries/associates	-	-	-	-	-	-	-	-	-	2	-	2
Valuation gains on investment properties	-	-	-	-	-	-	-	-	-	229	-	229
Share of profits less losses of associates	-	-	-	-	-	-	37	187	224	-	-	224
Profit/(Loss) before taxation	1,253	893	(113)	319	21	216	374	763	3,726	36	-	3,762
Depreciation for the period	(30)	(1)	(2)	(1)	-	(7)	(100)	(16)	(157)	(73)	-	(230)
At 31 st December, 2017												
Segment assets	81,889	148,083	164,908	26,284	5,237	21,123	299,726	107,804	855,054	13,555	(69,562)	799,047
Investments in associates	-	-	-	-	-	54	3,414	5,961	9,429	-	-	9,429
Other assets – Assets held for sale	-	-	-	-	-	351	76	39	466	-	-	466
Total assets	81,889	148,083	164,908	26,284	5,237	21,528	303,216	113,804	864,949	13,555	(69,562)	808,942
Segment liabilities	309,279	902	53,725	21,606	5	16,762	251,933	98,057	752,269	2,509	(47,059)	707,719
Other liabilities – Liabilities held for sale	-	-	-	-	-	9	-	-	9	-	-	9
Total liabilities	309,279	902	53,725	21,606	5	16,771	251,933	98,057	752,278	2,509	(47,059)	707,728

29. Analysis of Assets and Liabilities by Remaining Maturity

	30/6/2018							
	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets								
Cash and balances with banks and other financial institutions	24,811	71	368	264	-	-	23,355	48,869
Placements with and advances to banks and other financial institutions	-	53,841	9,030	3,432	78	-	-	66,381
Trade bills	3	3,097	4,802	8,526	-	-	-	16,428
Trading assets	-	10	380	2,312	2,260	74	1,874	6,910
Derivative assets	-	-	-	-	-	-	10,604	10,604
Loans and advances to customers	3,399	63,323	27,013	93,529	190,306	108,780	2,455	488,805
Investment securities	-	4,784	8,269	27,465	65,327	23,462	4,106	133,413
Investments in associates	-	-	-	-	-	-	9,321	9,321
Fixed assets	-	-	-	-	-	-	13,040	13,040
Goodwill and intangible assets	-	-	-	-	-	-	1,951	1,951
Deferred tax assets	-	-	-	-	-	-	568	568
Other assets	133	4,761	7,949	10,176	727	163	6,635	30,544
Total assets	28,346	129,887	57,811	145,704	258,698	132,479	73,909	826,834
Liabilities								
Deposits and balances of banks and other financial institutions	2,262	14,908	10,705	3,181	-	-	-	31,056
Deposits from customers	211,443	105,605	147,652	83,528	20,448	-	6	568,682
- Demand deposits and current accounts	77,941	-	-	-	-	-	-	77,941
- Savings deposits	132,655	-	-	-	-	-	-	132,655
- Time, call and notice deposits	847	105,605	147,652	83,528	20,448	-	6	358,086
Trading liabilities	-	-	199	-	-	-	-	199
Derivative liabilities	-	-	-	-	-	-	10,039	10,039
Certificates of deposit issued	-	7,389	21,365	22,061	-	-	-	50,815
Current taxation	-	-	-	1,570	-	-	-	1,570
Debt securities issued	-	142	157	301	263	-	-	863
Deferred tax liabilities	-	-	-	-	-	-	471	471
Other liabilities	950	4,455	8,971	12,444	9,274	3,770	7,374	47,238
Loan capital	-	-	-	-	12,306	-	-	12,306
Total liabilities	214,655	132,499	189,049	123,085	42,291	3,770	17,890	723,239
Net gap	(186,309)	(2,612)	(131,238)	22,619	216,407	128,709		

	31/12/2017 (Restated)							
	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets								
Cash and balances with banks and other financial institutions	26,093	749	936	1,535	-	-	26,383	55,696
Placements with and advances to banks and other financial institutions	-	47,996	9,361	1,226	-	-	-	58,583
Trade bills	32	3,336	3,853	6,688	-	-	-	13,909
Trading assets	-	557	220	1,681	1,394	147	2,957	6,956
Derivative assets	-	-	-	-	-	-	11,335	11,335
Loans and advances to customers	3,674	54,317	30,919	93,731	187,627	96,783	3,288	470,339
Investment securities	-	3,674	16,715	26,092	60,431	23,632	3,881	134,425
Investments in associates	-	-	-	-	-	-	9,429	9,429
Fixed assets	-	-	-	-	-	-	12,750	12,750
Goodwill and intangible assets	-	-	-	-	-	-	1,959	1,959
Deferred tax assets	-	-	-	-	-	-	602	602
Other assets	154	4,280	7,443	10,154	1,069	175	9,684	32,959
Total assets	29,953	114,909	69,447	141,107	250,521	120,737	82,268	808,942
Liabilities								
Deposits and balances of banks and other financial institutions	4,352	9,485	7,026	6,116	2	-	-	26,981
Deposits from customers	220,257	114,771	127,662	88,810	18,552	1,621	11	571,684
- Demand deposits and current accounts	85,518	-	-	-	-	-	-	85,518
- Savings deposits	133,969	-	-	-	-	-	-	133,969
- Time, call and notice deposits	770	114,771	127,662	88,810	18,552	1,621	11	352,197
Trading liabilities	-	-	-	-	-	-	11	11
Derivative liabilities	-	-	-	-	-	-	12,077	12,077
Certificates of deposit issued	-	4,096	12,500	19,870	-	-	-	36,466
Current taxation	-	-	-	1,160	-	-	-	1,160
Debt securities issued	-	-	117	431	459	-	-	1,007
Deferred tax liabilities	-	-	-	-	-	-	551	551
Other liabilities	924	4,250	8,358	12,898	8,940	3,454	6,554	45,378
Loan capital	-	-	-	-	12,413	-	-	12,413
Total liabilities	225,533	132,602	155,663	129,285	40,366	5,075	19,204	707,728
Net gap	(195,580)	(17,693)	(86,216)	11,822	210,155	115,662		

30. 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 st January, 2018	218	100	(569)	136	-	64	(51)
Impact of adopting HKFRS 9	-	-	89	(13)	-	-	76
(Credited)/Charged to income statement	36	-	(100)	(10)	3	(57)	(128)
(Credited)/Charged to reserve	-	8	-	(8)	-	(1)	(1)
Exchange and other adjustments	1	-	8	-	-	(2)	7
At 30 th June, 2018	<u>255</u>	<u>108</u>	<u>(572)</u>	<u>105</u>	<u>3</u>	<u>4</u>	<u>(97)</u>
Balance as at 31 st December, 2017	<u>218</u>	<u>100</u>	<u>(569)</u>	<u>136</u>	<u>-</u>	<u>64</u>	<u>(51)</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:

	30/6/2018 HK\$ Mn	31/12/2017 HK\$ Mn
Deferred tax assets	(568)	(602)
Deferred tax liabilities	471	551
	<u>(97)</u>	<u>(51)</u>

31. Reserves

	30/6/2018 HK\$ Mn	31/12/2017 HK\$ Mn
General reserve	14,054	14,060
Revaluation reserve on bank premises	1,757	1,757
Fair value reserve	1,062	1,465
Exchange revaluation reserve	(13)	487
Capital reserve	958	230
Capital reserve- staff share options issued	140	135
Liability credit reserve	(10)	-
Other reserves	4,921	4,931
Retained profits*	30,063	28,890
	<u>52,932</u>	<u>51,955</u>
Proposed dividends, not provided for	<u>1,432</u>	<u>1,659</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 30th June, 2018, HK\$5,046 million (31st December, 2017: HK\$4,062 million) was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the HKMA.

32. Additional Equity Instruments

	30/6/2018 HK\$ Mn	31/12/2017 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 2nd 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 2nd 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 18th May, 2017, the Bank issued undated non-cumulative subordinated capital securities ("Additional Tier 1 Capital Securities") with a face value of US\$500 million (equivalent to HK\$3,879 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 18th 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.

33. Consolidated Cash Flow Statement

Cash and cash equivalents	30/6/2018	30/6/2017 Restated
	HK\$ Mn	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	25,640	24,391
Placements with and advances to banks and other financial institutions with original maturity within three months	60,524	46,789
Treasury bills with original maturity within three months	2,517	2,279
Certificates of deposit held with original maturity within three months	1,128	3,406
Add: Cash and balances with banks and other financial institutions included in "Assets held for sale" (Note 43)	4	-
	<u>89,813</u>	<u>76,865</u>
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks and other financial institutions	48,869	53,014
Placements with and advances to banks and other financial institutions	66,381	52,200
Treasury bills, certificates of deposit held and debt securities		
- trading assets	5,036	3,113
- investment securities	128,945	127,889
	133,981	131,002
Add: Cash and balances with banks and other financial institutions included in "Assets held for sale" (Note 43)	4	-
Amount shown in the consolidated statement of financial position	249,235	236,216
Less : Amounts with an original maturity of beyond three months	(136,185)	(130,728)
Cash balance with central bank subject to regulatory restriction	(23,237)	(28,623)
Cash and cash equivalents in the consolidated cash flow statement	<u>89,813</u>	<u>76,865</u>

34. Offsetting Financial Instruments

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

	At 30 th June, 2018				
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related financial instruments that are not set off	Net amount
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets					
Derivative assets	27	-	27	(26)	1
Other accounts	655	(536)	119	-	119
Total	682	(536)	146	(26)	120

	At 30 th June, 2018				
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related financial instruments that are not set off	Net amount
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Liabilities					
Derivative liabilities	115	-	115	(26)	89
Other accounts	536	(536)	-	-	-
Total	651	(536)	115	(26)	89

At 31st December, 2017

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related financial instruments that are not set off	Net amount
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets					
Derivative assets	38	-	38	(34)	4
Other accounts	1,164	(763)	401	-	401
Total	1,202	(763)	439	(34)	405

At 31st December, 2017

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related financial instruments that are not set off	Net amount
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Liabilities					
Derivative liabilities	69	-	69	(34)	35
Other accounts	763	(763)	-	-	-
Total	832	(763)	69	(34)	35

35. Fair Values of Financial Instruments

(a) Financial instruments carried at fair value

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

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

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

Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or counterparty quotations. For all other financial instruments the Group determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models and various market widely 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.

	30/6/2018				31/12/2017			
	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
Recurring fair value measurement								
Assets								
Trading assets	2,092	4,818	-	6,910	3,018	3,938	-	6,956
Derivative assets	-	10,604	-	10,604	-	11,335	-	11,335
Investment securities								
- Mandatorily measured at FVTPL	11,396	3,057	301	14,754	n.a.	n.a.	n.a.	n.a.
- Designated at FVTPL	838	888	-	1,726	2,594	1,575	-	4,169
- At FVOCI	64,201	33,827	603	98,631	n.a.	n.a.	n.a.	n.a.
- Available-for-sale	n.a.	n.a.	n.a.	n.a.	83,835	35,928	562	120,325
	<u>78,527</u>	<u>53,194</u>	<u>904</u>	<u>132,625</u>	<u>89,447</u>	<u>52,776</u>	<u>562</u>	<u>142,785</u>
Liabilities								
Trading liabilities	199	-	-	199	11	-	-	11
Derivative liabilities	-	10,039	-	10,039	-	12,077	-	12,077
Financial liabilities designated at fair value through profit or loss	-	18,092	-	18,092	-	15,616	-	15,616
	<u>199</u>	<u>28,131</u>	<u>-</u>	<u>28,330</u>	<u>11</u>	<u>27,693</u>	<u>-</u>	<u>27,704</u>

During the period ended 30th June, 2018 and year ended 31st December, 2017, 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)	Range
Unlisted equity instruments at FVOCI (2017: available-for-sale)	Net asset value	N/A	N/A
	Discounted cash flow model	Discount rate	12.37% (31 Dec 2017: 15.4%)
		Marketability discount	20% (31 Dec 2017: 20%)
	Market-comparable approach	Earnings multiple	27.80% – 33.53% (31 Dec 2017: 25.13% – 26.33%)
		P/B ratios	4.68% – 4.79% (31 Dec 2017: 4.11% – 4.39%)
		Marketability discount	50% (31 Dec 2017: 50%)

The fair values of unlisted equity instruments measured at FVOCI (2017: available-for-sale) 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:

	30/6/2018		31/12/2017
	Investment securities mandatorily measured at FVTPL	Investment securities at FVOCI	Available-for-sale financial assets
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets			
At 1 st January	213	349	493
Purchases	104	-	42
Settlements	(8)	-	(86)
Changes in fair value recognised in the income statement	(8)	-	(2)
Changes in fair value recognised in the other comprehensive income	-	254	114
Exchange adjustments	-	-	1
At 30 th June/31 st December	<u>301</u>	<u>603</u>	<u>562</u>
Total gains or losses for the period included in FVOCI (2017: available-for-sale) fair value reserve of the other comprehensive income for assets held at the end of the reporting period	<u>-</u>	<u>254</u>	<u>114</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>(8)</u>	<u>-</u>	<u>-</u>

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

	30/6/2018			
	Effect recorded in profit or loss Favourable	(Unfavourable)	Effect recorded directly in equity Favourable	(Unfavourable)
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Financial assets				
Investment securities mandatorily measured at FVTPL	25	(25)	-	-
Investment securities at FVOCI	-	-	50	(50)
	<u>25</u>	<u>(25)</u>	<u>50</u>	<u>(50)</u>
	31/12/2017			
	Effect recorded in profit or loss Favourable	(Unfavourable)	Effect recorded directly in equity Favourable	(Unfavourable)
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Financial assets				
Available-for-sale financial assets	-	-	47	(47)
	<u>-</u>	<u>-</u>	<u>47</u>	<u>(47)</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 unquoted equity investments is estimated, if possible, using the applicable dividend discount model or the net asset value in the investment, or benchmarking against peer group's market information.
- (v) The fair value of unlisted open-ended investment funds is estimated using the net asset value per share as reported by the managers of such funds.
- (vi) The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30th June, 2018 and 31st December, 2017 except as follows:

	30/6/2018		31/12/2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Financial assets				
Investment securities at amortised cost (2017: Held-to-maturity)	18,302	18,417	9,798	9,756

36. Credit Risk

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

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

The criteria of "significant increase of credit risk" has taken into consideration of 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 table sets out information about the credit quality of loans and advances to customers. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

	30/6/2018								31/12/2017	
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total		Total	
	Principal	Accrued interest	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	HK\$ Mn	HK\$ Mn
Loans and advances to customers at amortised cost										
- Grades 1 - 15: Pass	458,442	1,011	23,107	81	-	-	481,549	1,092	463,082	963
- Grades 16-17: Special Mention	-	-	4,918	21	-	-	4,918	21	5,517	23
- Grade 18: Substandard	-	-	-	-	1,521	7	1,521	7	1,392	5
- Grade 19: Doubtful	-	-	-	-	2,322	143	2,322	143	3,003	42
- Grade 20: Loss	-	-	-	-	788	218	788	218	782	2
Total gross carrying amount	458,442	1,011	28,025	102	4,631	368	491,098	1,481	473,776	1,035
Impairment allowances	(660)	(2)	(575)	(3)	(1,058)	(223)	(2,293)	(228)	(3,437)	-
Carrying amount	457,782	1,009	27,450	99	3,573	145	488,805	1,253	470,339	1,035

Credit quality of financial assets other than loans and advances

The following table sets out the credit analysis for debt instruments other than loans and advances to customers, measured at amortised cost and FVOCI (2017: available-for-sale). 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.

	30/6/2018								31/12/2017	
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total		Total	
	Principal	Accrued interest	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	HK\$ Mn	HK\$ Mn
Trade bills at amortised cost										
- Grades 1 - 15: Pass	3,010	30	35	-	-	-	3,045	30	13,909	44
- Grades 16-17: Special Mention	-	-	-	-	-	-	-	-	-	-
- Grade 18: Substandard	-	-	-	-	-	-	-	-	-	-
- Grade 19: Doubtful	-	-	-	-	1	-	1	-	1	-
- Grade 20: Loss	-	-	-	-	-	-	-	-	-	-
Total gross carrying amount	3,010	30	35	-	1	-	3,046	30	13,910	44
Impairment allowances	(3)	-	(1)	-	(1)	-	(5)	-	(1)	-
Carrying amount	3,007	30	34	-	-	-	3,041	30	13,909	44

	30/6/2018								31/12/2017	
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total		Total	
	Principal	Accrued interest	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	HK\$ Mn	HK\$ Mn
Trade bills at FVOCI										
- Grades 1 - 15: Pass	12,830	3	557	-	-	-	13,387	3	-	-
Total carrying amount at fair value	12,830	3	557	-	-	-	13,387	3	-	-
Impairment allowances	(9)	-	(2)	-	-	-	(11)	-	-	-

	30/6/2018								31/12/2017	
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total		Total	
	Principal	Accrued interest	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	HK\$ Mn	HK\$ Mn
Placements with and advances to banks and other financial institutions										
- Grades 1 - 15: Pass	66,391	85	-	-	-	-	66,391	85	58,583	39
Total gross carrying amount	66,391	85	-	-	-	-	66,391	85	58,583	39
Impairment allowances	(10)	-	-	-	-	-	(10)	-	-	-
Carrying amount	66,381	85	-	-	-	-	66,381	85	58,583	39

	30/6/2018				31/12/2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Loan commitments					
- Grades 1 - 15: Pass	135,849	13,654	-	149,503	145,259
- Grades 16-17: Special Mention	6	19	-	25	167
Total	135,855	13,673	-	149,528	145,426
Impairment allowances	(79)	(21)	-	(100)	-
Financial guarantee contracts					
- Grades 1 - 15: Pass	25,769	2,704	-	28,473	28,187
- Grades 16-17: Special Mention	-	80	-	80	3
Total	25,769	2,784	-	28,553	28,190
Impairment allowances	(32)	(10)	-	(42)	-

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:

	30/6/2018								31/12/2017	
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total		Total	
	Principal	Accrued interest	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	HK\$ Mn	HK\$ Mn
Debt securities at amortised cost (2017: held-to-maturity and loans and receivables)										
Aaa	-	-	-	-	-	-	-	-	-	-
Aa1 to Aa3	2,679	1	-	-	-	-	2,679	1	2,571	1
A1 to A3	5,546	104	-	-	-	-	5,546	104	5,074	99
Baa1 to Baa3	2,308	29	-	-	-	-	2,308	29	1,193	10
Below Baa3	1,484	19	-	-	-	-	1,484	19	567	8
Unrated	6,331	74	28	-	-	-	6,359	74	526	6
Total gross carrying amount	18,348	227	28	-	-	-	18,376	227	9,931	124
Impairment allowances	(73)	(1)	(1)	-	-	-	(74)	(1)	-	-
Carrying amount	18,275	226	27	-	-	-	18,302	226	9,931	124

	30/6/2018								31/12/2017	
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total		Total	
	Principal	Accrued interest	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	HK\$ Mn	HK\$ Mn
Debt securities at FVOCI (2017: available-for-sale)										
Aaa	5,824	15	-	-	-	-	5,824	15	6,957	11
Aa1 to Aa3	16,010	15	-	-	-	-	16,010	15	22,722	24
A1 to A3	35,521	427	-	-	-	-	35,521	427	36,299	458
Baa1 to Baa3	28,961	299	-	-	-	-	28,961	299	32,796	346
Below Baa3	1,306	15	-	-	-	-	1,306	15	1,794	20
Unrated	10,171	109	235	3	-	-	10,406	112	16,166	178
Total carrying amount at fair value	97,793	880	235	3	-	-	98,028	883	116,734	1,037
Impairment allowances	(192)	(2)	(9)	-	-	-	(201)	(2)	-	-

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

	30/6/2018	31/12/2017
	HK\$ Mn	HK\$ Mn
Debt securities		
Aaa	160	163
Aa1 to Aa3	2,825	1,039
A1 to A3	1,788	1,686
Baa1 to Baa3	6,640	376
Below Baa3	253	-
Unrated	949	615
Total carrying amount at fair value	<u>12,615</u>	<u>3,879</u>

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

	30/6/2018	31/12/2017
	HK\$ Mn	HK\$ Mn
Debt securities		
Aaa	-	-
Aa1 to Aa3	217	61
A1 to A3	4,559	3,761
Baa1 to Baa3	118	117
Below Baa3	-	-
Unrated	142	60
Total carrying amount at fair value	<u>5,036</u>	<u>3,999</u>

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

	30/6/2018	31/12/2017
	HK\$ Mn	HK\$ Mn
Derivative assets		
Aa1 to Aa3	322	664
A1 to A3	4,082	2,214
Baa1 to Baa3	3,734	4,620
Below Baa3	222	56
Unrated	2,244	3,781
Total carrying amount at fair value	<u>10,604</u>	<u>11,335</u>

Cash and balances with banks and other financial institutions

The Group held cash and balances with banks and other financial institutions of HK\$48,869 million at 30th June, 2018 (31st December, 2017: HK\$55,696 million), of which 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 1st January and 30th June at transaction level.

Explanations of 12-month ECL, lifetime ECL and credit-impaired are included in Note 2.

	30/6/2018			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Loans and advances to customers				
Balance at 1 st January	839	1,028	1,177	3,044
Transfer to 12-month ECL	238	(238)	-	-
Transfer to lifetime ECL not credit-impaired	(7)	32	(25)	-
Transfer to lifetime ECL credit-impaired	(33)	(40)	73	-
New financial assets originated or purchased, assets derecognised, repayments and further lending	(68)	(132)	19	(181)
Write-offs	-	-	(841)	(841)
Changes in models	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	(307)	(72)	878	499
Balance at 30 th June	<u>662</u>	<u>578</u>	<u>1,281</u>	<u>2,521</u>
Of which:				
For advance to customers at amortised cost	660	575	1,058	2,293
For related accrued interest receivable	<u>2</u>	<u>3</u>	<u>223</u>	<u>228</u>
	<u>662</u>	<u>578</u>	<u>1,281</u>	<u>2,521</u>

	30/6/2018			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt securities				
Balance at 1 st January	277	13	-	290
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit-impaired	-	-	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-
New financial assets originated or purchased, assets derecognised, repayments and further lending	31	(2)	-	29
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	(40)	(1)	-	(41)
Balance at 30 th June	<u>268</u>	<u>10</u>	<u>-</u>	<u>278</u>
Of which:				
For debt securities at amortised cost	73	1	-	74
For related accrued interest receivable	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
	<u>74</u>	<u>1</u>	<u>-</u>	<u>75</u>
For debt securities at FVOCI	192	9	-	201
For related accrued interest receivable	<u>2</u>	<u>-</u>	<u>-</u>	<u>2</u>
	<u>194</u>	<u>9</u>	<u>-</u>	<u>203</u>

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

	30/6/2018			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Others				
Balance at 1 st January	220	54	1	275
Transfer to 12-month ECL	25	(25)	-	-
Transfer to lifetime ECL not credit-impaired	(5)	5	-	-
Transfer to lifetime ECL credit- impaired	-	-	-	-
New financial assets originated or purchased, assets derecognised, repayments and further lending	7	(12)	53	48
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	(69)	13	1	(55)
Balance at 30 th June	<u>178</u>	<u>35</u>	<u>55</u>	<u>268</u>
Of which:				
For trade bills at FVOCI	9	2	-	11
For related accrued interest receivable	-	-	-	-
	<u>9</u>	<u>2</u>	<u>-</u>	<u>11</u>
For trade bills at amortised cost	3	1	1	5
For related accrued interest receivable	-	-	-	-
	<u>3</u>	<u>1</u>	<u>1</u>	<u>5</u>
For placements with banks and financial institutions	10	-	-	10
For related accrued interest receivable	-	-	-	-
	<u>10</u>	<u>-</u>	<u>-</u>	<u>10</u>
For cash and balances with banks and financial institutions	9	-	-	9
For related accrued interest receivable	-	-	-	-
	<u>9</u>	<u>-</u>	<u>-</u>	<u>9</u>
For loan commitments and financial guarantee contracts	<u>111</u>	<u>31</u>	<u>-</u>	<u>142</u>
For account receivables and other accounts	<u>36</u>	<u>1</u>	<u>54</u>	<u>91</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.

37. Off-balance Sheet Exposures

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

	30/6/2018 HK\$ Mn	31/12/2017 HK\$ Mn
Contractual amounts of contingent liabilities		
Direct credit substitutes	14,883	12,319
Transaction-related contingencies	783	817
Trade-related contingencies	1,892	1,490
	<u>17,558</u>	<u>14,626</u>
Contractual amounts of commitments		
Commitments that are unconditionally cancellable without prior notice	164,557	170,099
Other commitments with an original maturity		
- up to 1 year	11,304	7,766
- over 1 year	28,305	26,577
	<u>204,166</u>	<u>204,442</u>
Total	<u>221,724</u>	<u>219,068</u>
Credit risk weighted amounts	<u>25,899</u>	<u>31,289</u>
Fair value of derivatives		
Assets		
Exchange rate contracts	6,773	8,806
Interest rate contracts	3,201	2,258
Equity contracts	626	256
Others	4	15
	<u>10,604</u>	<u>11,335</u>
Liabilities		
Exchange rate contracts	6,978	9,599
Interest rate contracts	2,431	1,924
Equity contracts	600	534
Others	30	20
	<u>10,039</u>	<u>12,077</u>
Notional amounts of derivatives		
Exchange rate contracts	739,200	699,544
Interest rate contracts	546,023	511,219
Equity contracts	15,918	19,757
Others	335	1,342
	<u>1,301,476</u>	<u>1,231,862</u>
Credit risk weighted amounts*		
Exchange rate contracts	3,224	4,230
Interest rate contracts	522	455
Equity contracts	97	92
Others	350	349
	<u>4,193</u>	<u>5,126</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 30th June, 2018 and 31st December, 2017.

(b) Capital commitments

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

	30/6/2018 HK\$ Mn	31/12/2017 HK\$ Mn
Expenditure authorised and contracted for	227	242
Expenditure authorised but not contracted for	287	215
	<u>514</u>	<u>457</u>

38. Material Related Party Transactions

(a) Key management personnel remuneration

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

	30/6/2018 HK\$ Mn	30/6/2017 HK\$ Mn
Short-term employee benefits	76	78
Post-employment benefits	4	3
Equity compensation benefits	17	19
	<u>97</u>	<u>100</u>

- (b) The Group maintains certain retirement benefit schemes for its staff. In the six months ended 30th June, 2018, the total amount of contributions the Group made to the schemes was HK\$82 million (six months ended 30th June, 2017: HK\$79 million).

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

The interest received from and interest paid to the Group's related parties for the six months ended 30th June, 2018, outstanding balances of amounts due from and due to them at 30th June, 2018 and maximum outstanding balance of amounts due from and due to them for the six months ended 30th June, 2018 are aggregated as follows:

	Key management personnel		Associates	
	30/6/2018 HK\$ Mn	30/6/2017 HK\$ Mn	30/6/2018 HK\$ Mn	30/6/2017 HK\$ Mn
Interest income	12	59	16	9
Interest expense	14	13	2	-
Amounts due from	3,323	4,725	1,117	684
Amounts due to	2,569	2,528	115	32
Maximum amounts due from	3,739	5,493	1,781	725
Maximum amounts due to	4,809	5,648	723	151
Committed facilities to	629	2,505	1,422	317

39. Basis of Consolidation

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

The capital adequacy ratio 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.

40. Comparative Figures

Certain 2017 comparative figures have been restated to conform to current period's presentation. Please refer to Consolidated Income Statement, Consolidated Statement of Financial Position, Notes 5, 11, 17, 23, 28, 29 and 33 for the effect of restatement.

41. Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the six months ended 30th June, 2018

A number of amendments and new standards are effective for annual periods beginning after 1st January, 2018 and earlier application is permitted; however, the Group has not early adopted any new or amended standards in preparing this interim financial report. The Group has the following updates to the information provided in the last Annual Report about the possible impacts of the new standards issued but not yet effective which may have a significant impact on the Group's consolidated financial statements.

HKFRS 16, Leases

HKFRS 16 is effective for annual periods beginning on or after 1st January, 2019. As discussed in the 2017 annual financial statements, HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting standard is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the income statement over the period of the lease. The work to assess the impact of the standard is ongoing and it is not yet practicable to quantify the effect of HKFRS 16 on these consolidated financial statements.

42. Statement of Compliance

This interim financial 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 29th August, 2018.

The Banking Disclosure Statement (refer to Note E of Supplementary Financial Information), together with the disclosures in this interim financial report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA.

43. Discontinued Operations and Assets Held for Sale

On 5th October, 2016, the Bank, NWS Holdings Limited ("NWS Holdings") and East Asia Secretaries (BVI) Limited ("East Asia Secretaries") entered into a share purchase agreement with Trivium Investment Limited ("Trivium"), a wholly-owned subsidiary of global investment firm, Permira, for the sale of all the issued shares of Tricor Holdings Limited ("Tricor") held by East Asia Secretaries to Trivium for a total consideration of HK\$6,470 million. Tricor was 75.61% owned by the Bank and 24.39% owned by NWS Holdings, in each case through East Asia Secretaries. On 31st March, 2017, the Bank completed the disposal of Tricor to Trivium. Following completion of the disposal, the Bank has ceased to hold any equity interest in Tricor and Tricor has ceased to be a subsidiary of the Bank. A net profit of HK\$3,005 million in respect of the disposal was recorded and included in the profits attributable to owners of the parent from discontinued operations. Tricor's operating results are reported as discontinued operations in the consolidated income statement for the 6 months ended 30th June, 2017.

On 29th 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") ("collectively, the "China Disposal"). The total consideration of the China Disposal is RMB563 million, subject to mutually agreed adjustments upon completion. The completion of the China Disposal is subject to the requisite Chinese regulatory approvals. Shenzhen Credit Gain, Chongqing Credit Gain and Chongqing Dongrong's assets and liabilities as at 30th June 2018 and 31st December, 2017 are presented separately as assets held for sale and liabilities held for sale respectively in the consolidated financial statements.

The results of discontinued operations for the periods are as follows:

	6 months ended 30/6/2018 HK\$ Mn	6 months ended 30/6/2017 HK\$ Mn
Interest income	-	1
Interest expense	-	(1)
Net interest income	-	-
Fee and commission income	-	312
Fee and commission expense	-	-
Net fee and commission income	-	312
Net trading losses	-	(4)
Non-interest income	-	308
Operating income	-	308
Operating expenses	-	(232)
Operating profit before impairment losses	-	76
Impairment losses on financial assets	-	(2)
Operating profit after impairment losses	-	74
Net profit on sale of discontinued operations	-	4,084
Share of profits less losses of associates	-	1
Profit for the period before taxation	-	4,159
Income tax		
Current tax		
- Hong Kong	-	(8)
- Outside Hong Kong	-	(6)
Profit for the period from discontinued operations	-	4,145

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

	30/6/2018 HK\$ Mn	31/12/2017 HK\$ Mn
ASSETS		
Cash and balances with banks and other financial institutions	4	4
Loans and advances to customers	345	307
Gross loans and advances to customers	347	317
Less: Impairment allowances		
- Stage 1	(1)	-
- Stage 2	(1)	-
- Stage 3	-	-
- Specific	-	(10)
Fixed assets	7	9
- Investment properties	-	-
- Other properties and equipment	7	9
Deferred tax assets	23	25
Other assets	9	6
Assets held for sale	<u>388</u>	<u>351</u>
LIABILITIES		
Other liabilities	7	9
Liabilities held for sale	<u>7</u>	<u>9</u>

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

	30/6/2018 HK\$ Mn	31/12/2017 HK\$ Mn
Assets held for sale (Note 23)		
Disposal groups held for sale	388	351
Other properties	75	115
	<u>463</u>	<u>466</u>
Liabilities held for sale (Note 26)		
Disposal groups held for sale	<u>7</u>	<u>9</u>

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

	30/6/2018 HK\$ Mn	30/6/2017 HK\$ Mn
Cumulative income recognised in other comprehensive income	<u>(43)</u>	<u>-</u>

SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital Adequacy

	30/6/2018	31/12/2017
	HK\$ Mn	HK\$ Mn
Capital base		
- Common Equity Tier 1 capital	74,207	72,786
- Additional Tier 1 capital	10,312	10,666
- Total Tier 1 capital	84,519	83,452
- Tier 2 capital	15,041	14,672
- Total capital	99,560	98,124
Risk weighted assets by risk type		
- Credit risk	433,472	496,034
- Market risk	24,430	28,161
- Operational risk	31,454	31,005
	489,356	555,200
Less: Deductions	(3,258)	(3,332)
	486,098	551,868
	30/6/2018	31/12/2017
	%	%
Common Equity Tier 1 capital ratio	15.3	13.2
Tier 1 capital ratio	17.4	15.1
Total capital ratio	20.5	17.8

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 and transitional arrangements as determined in accordance with Part 3 and Schedule 4H of the Capital Rules respectively.

The subsidiaries that are included in consolidation for regulatory purposes are listed in Note 39 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 or at the following direct link: www.hkbea.com/regulatory_disclosures.

B. Liquidity Position

		30/6/2018	31/12/2017
		%	%
Average liquidity coverage ratio	- First quarter	137.8	150.7
	- Second quarter	144.8	129.5
	- Third quarter	N/A	136.5
	- Fourth quarter	N/A	151.7

The liquidity coverage ratio is calculated in accordance with the Banking (Liquidity) Rules effective from 1st 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 or at the following direct link: 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.

C. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

	30/6/2018		31/12/2017	
	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	97	0.0	576	0.1
- 1 year or less but over 6 months	852	0.2	765	0.2
- Over 1 year	2,081	0.4	2,636	0.5
	3,030	0.6	3,977	0.8
Rescheduled advances to customers	104	0.0	108	0.0
Total overdue and rescheduled advances	3,134	0.6	4,085	0.8
Covered portion of overdue advances	2,557	0.5	3,241	0.7
Uncovered portion of overdue advances	473	0.1	736	0.1
Current market value of collateral held against the covered portion of overdue advances	4,499		4,508	
Individual impairment allowance made on advances overdue for more than 3 months	696		931	

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;

- (c) The Bank's right to repossess the asset is legally enforceable and without impediment; and
- (d) The Bank is able to secure control over the asset if necessary.

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

- (i) "Eligible Financial Collateral" mainly comprises cash deposits and shares.
- (ii) "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:

- (a) Debt rescheduling / restructuring
- (b) Enforcement of security
- (c) Legal action
- (d) Recovery via debt collector

(b) Advances to banks

	30/6/2018 HK\$ Mn	31/12/2017 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

	30/6/2018		
	Accrued interest HK\$ Mn	Debt securities HK\$ Mn	Other assets* HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	1	-	-
- 1 year or less but over 6 months	30	-	-
- Over 1 year	153	-	1
	184	-	1
Rescheduled assets	1	-	-
Total other overdue and rescheduled assets	185	-	1

	31/12/2017		
	Accrued interest HK\$ Mn	Debt securities HK\$ Mn	Other assets* HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	-	-	-
- 1 year or less but over 6 months	-	-	-
- Over 1 year	-	-	1
	-	-	1
Rescheduled assets	-	-	-
Total other overdue and rescheduled assets	-	-	1

* Other assets refer to trade bills and receivables.

(d) Repossessed assets

	<u>30/6/2018</u>	<u>31/12/2017</u>
	HK\$ Mn	HK\$ Mn
Reposessed land and buildings*	917	1,485
Reposessed vehicles and equipment	-	-
Reposessed machines	-	-
Total reposessed assets	<u>917</u>	<u>1,485</u>

The amount represents the estimated market value of the reposessed assets as at 30th June, 2018 and 31st December, 2017.

** The balance included HK\$628 million (31/12/2017: HK\$5 million) relating to properties that were contracted for sale but not yet completed.*

D. Leverage Ratio

	<u>30/6/2018</u>	<u>31/12/2017</u>
	%	%
Leverage ratio	9.9	10.0

The disclosure on leverage ratio is effective since 31st 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 or at the following direct link: www.hkbea.com/regulatory_disclosures.

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 or at the following direct link: www.hkbea.com/regulatory_disclosures.

INTERIM DIVIDEND

The Board is pleased to declare an interim dividend of HK\$0.51 per share (the “2018 Interim Dividend”) (2017 Interim Dividend: HK\$0.68 per share) for the six months ended 30th June, 2018. The 2018 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, 18th September, 2018. The ex-dividend date for the 2018 Interim Dividend will be on Thursday, 13th September, 2018. Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Tuesday, 18th September, 2018. 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, 12th October, 2018.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed on Monday, 17th September, 2018 and Tuesday, 18th September, 2018. In order to qualify for the 2018 Interim Dividend, all transfer documents should be lodged for registration with Tricor Standard Limited, Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, by 4:00 p.m. on Friday, 14th September, 2018.

FINANCIAL REVIEW

Financial Performance

For the first six months of 2018, the Group earned a profit attributable to owners of the parent of HK\$3,992 million, representing a decrease of HK\$2,228 million or 35.8%, compared with the HK\$6,220 million earned in the same period in 2017.

Excluding the gain from discontinued operations recorded in the first half of 2017, which totalled HK\$3,049 million, profit attributable to owners of the parent increased by HK\$821 million, or 25.9%.

Basic earnings per share from continuing operations rose from HK\$1.08 in the first half of 2017 to HK\$1.30 in the corresponding period in 2018. Incorporating discontinued operations, basic earnings per share fell from HK\$2.20 in the first six months of 2017 to HK\$1.30 for the same period in 2018.

Annualised return on average assets from continuing operations rose from 0.8% to 0.9%, while the annualised return on average equity from continuing operations rose from 7.1% to 8.0%. Incorporating discontinued operations, annualised return on average assets fell from 1.1% to 0.9%, while the annualised return on average equity fell from 10.8% to 8.0%.

During the first six months of 2018, the Group’s net interest income from continuing operations increased by HK\$511 million, or 8.9%, to HK\$6,250 million. Net interest margin increased from 1.64% to 1.70%, and average interest bearing assets increased by 4.7%.

Net fee and commission income from continuing operations grew by HK\$144 million, or 11.8%, to HK\$1,362 million. Commission income from securities and brokerage, retail banking services, asset management, investment product and credit card businesses grew.

Taken together, net trading and hedging results and net results from financial instruments designated/mandatory at fair value through profit or loss from continuing operations increased by HK\$249 million to HK\$430 million. Overall, non-interest income from continuing operations grew by 24.6% to HK\$2,276 million. Operating income from continuing operations increased by 12.7% to HK\$8,526 million.

Total operating expenses from continuing operations rose by 9.1% to HK\$4,186 million. Given that operating income increased by HK\$961 million, or 12.7%, the cost-to-income ratio improved from 50.7% in the first half of 2017 to 49.1% in the first half of 2018.

Operating profit before impairment losses from continuing operations stood at HK\$4,340 million, an increase of HK\$614 million, or 16.5%, when compared with the corresponding period in 2017.

Under HKFRS 9, there was a net charge of impairment losses on financial assets of HK\$282 million in 2018, as compared to a net impairment charge of HK\$765 million under HKAS 39 in 2017. The Group's impaired loan ratio improved from 1.09% at the end of December 2017 to 0.94% at the end of June 2018. The impaired loan ratio for Hong Kong operations fell from 0.91% to 0.79%, while that for Mainland China operations fell from 1.79% to 1.59%.

Operating profit after impairment losses from continuing operations amounted to HK\$4,057 million, an increase of HK\$1,154 million, or 39.8%.

Net profit on the sale of financial assets measured at fair value through other comprehensive income / available-for-sale from continuing operations decreased by 77.2% to HK\$49 million.

Net profit on sale of disposal group and assets held for sale from continuing operations in the first six months of 2018 decreased by HK\$180 million, or 94.6%, mainly due to a profit of HK\$192 million on disposal of a property in Hong Kong in 2017.

Valuation gains on investment properties from continuing operations increased to HK\$394 million.

The Group shared after-tax profits from associates of HK\$281 million from continuing operations, an increase of HK\$57 million, or 25.0% compared to the same period in 2017.

After accounting for income taxes, profit after taxation from continuing operations rose to HK\$4,019 million, an increase of 26.0% compared to the HK\$3,188 million recorded in the first half of 2017.

Financial Position

Total consolidated assets of the Group stood at HK\$826,834 million at the end of June 2018, an increase of 2.2% compared to HK\$808,942 million at the end of 2017.

Gross advances to customers rose by 3.7% to HK\$491,098 million, while trade bills negotiated grew by 18.1% to HK\$16,433 million.

Total equity attributable to owners of the parent increased to HK\$91,815 million, up 2.6%, mainly due to the net profit of HK\$3,992 million earned during the first six months of 2018.

Total deposits from customers decreased by 0.5% to HK\$568,682 million. Of the total, demand deposits and current account balances decreased by HK\$7,577 million, or 8.9%; savings deposits decreased by HK\$1,314 million, or 1.0%; and time deposits increased by HK\$5,889 million, or 1.7%. Total deposit funds, comprising deposits from customers and all certificates of deposit issued, increased by 1.9% to HK\$619,497 million.

The loan-to-deposit ratio stood at 79.3% at the end of June 2018, compared to 77.9% at the end of 2017.

As at 30th June, 2018, the total capital ratio, tier 1 ratio, and common equity tier 1 ratio were 20.5%, 17.4%, and 15.3%, respectively. The average liquidity coverage ratio for the quarter ended 30th June, 2018 was 144.8%, which was well above the statutory minimum of 90% for the year 2018.

BUSINESS OVERVIEW

The global economic environment further improved in the first half of 2018. The United States maintained its growth momentum, while Europe and China performed at the higher end of expectations.

With stronger external demand, Hong Kong exports grew by 9.3% year-on-year in the first half of 2018. Private consumption registered strong growth of 7.4% in the first half of 2018, as unemployment fell to the average of 2.9%. The positive wealth effect of rising equity and property values also contributed to the buoyant atmosphere. This, together with a recovery in tourist arrivals, fuelled a year-on-year rise of 13.4% in retail sales in the first half of the year.

Residential property prices climbed by 10.4% in the first half of 2018, as investment demand remained strong amid the ultra-low interest rate environment. Overall, economic growth in Hong Kong accelerated to 4.0% in the first half of the year.

On the Mainland, stronger external demand fuelled the manufacturing sector, with the value of exports surging by an annualised 12.7% in the first half of 2018. The Mainland government took advantage of the stable economic conditions to mop up excess credit by tightening interbank lending and other austerity measures. The government also adopted more restrictive policies toward the property sector, leading to some cooling of price rises in first tier cities. Overall, the economy grew by 6.8% in the first half of the year.

Looking ahead, the Mainland's continuing deleveraging efforts may be tested as the impact of trade tensions between China and the US spreads to the broader economy. Trade tensions have already affected business confidence. Economic growth on the Mainland is therefore expected to slow in the second half of 2018, bringing growth for the year as a whole to 6.5%. Inflation is expected to average 2.1%.

Hong Kong's economy will be buffeted by both trade tensions and a likely increase in local interest rates in the second half of 2018, resulting in slower growth and pressure on asset markets. GDP growth is forecast to average 3.8% for 2018, while inflation will average 2.2%.

Business – Hong Kong

In the six months to 30th June, 2018, the aggregate value of BEA's customer loans and trade bills in Hong Kong rose by 5.2%. Customer loans grew by 5.8%, while total deposits increased by 4.5%. Debt investments declined by 1.3%.

Retail Banking

The Bank's retail operations recorded another solid performance in the first half of 2018, benefitting from efforts to digitalise services, revamp operations and streamline the branch network. Net interest income grew by 11.1% year-on-year, while net fee and commission income increased by 8.0%. Overall, operating income was 10.9% higher than the same period a year earlier.

Investment product sales recorded a double-digit increase, while mortgage loans also grew at a strong rate. Momentum in attracting new accounts was maintained and current and savings account balances have risen further.

Following the completion of the branch digitalisation project, the Bank has sustained efforts to refine service provision and improve the customer experience. For added convenience, customers can now take out personal loans using their mobile phones. The Bank's i-Tellers will be enhanced to enable self-service account opening. Customer Experience Managers have been deployed across the branch network to educate customers on the use of the Bank's digital technology and encourage them to adopt digital channels. The number of customers who make regular use of BEA's web and mobile platforms increased by 23.2% during the past year, while the share of financial transactions completed using digital channels is 28%.

The Bank's innovative i-Payment Hub saw its initial launch in June 2018. This new service enables merchants to collect a comprehensive range of mobile payments through a single platform. Next, additional payment solutions will be developed for consumers, including a new function to manage different e-wallets. Meanwhile, the BEA App is being continuously upgraded following a major revamp in the first quarter this year. New wealth management tools will soon be launched to bring even greater convenience for users and drive revenue-generating transactions.

Corporate & Commercial Banking

Corporate Banking achieved steady growth in the first half of the year. The Bank continued to emphasise asset quality, remaining highly selective in extending new loans. As a result, the corporate loan balance saw a mild increase of 1.5% compared to the end of 2017, with an improved impaired loan ratio.

Efforts to cross-sell banking products and boost non-interest income were successful, with insurance commissions up by 42.4% and income from treasury product sales up by 39.6%. Overall, net fee and commission income grew by 9.9%. These gains more than offset a slight drop in net interest income, and operating income registered a rise of 1.3% for the period under review. Profit before tax saw an 8.9% increase due to lower loan provisions.

Liquidity has tightened in China and Mainland companies are returning to Hong Kong for funding. Loan demand in Hong Kong is expected to improve further in the second half of the year, which will have a positive impact on net interest income going forward.

As interest rates gradually rise, the Bank aims to absorb more CASA deposits from corporate clients to bring funding costs down. In order to achieve this goal, competitive cash management solutions and enhanced support services will be offered to corporates. In addition, the corporate banking team and their counterparts in Guangdong are working closely together to enable clients to take maximum advantage of BEA's extensive capabilities within the region, as the Guangdong-Hong Kong-Macao Greater Bay Area initiative generates an increasing number of new business opportunities.

Wealth Management

Private Banking had a positive start to 2018. Net interest income recorded double-digit growth year-on-year. Investment product sales were strong in the first quarter, with good growth in equity-based asset classes. Despite a downturn in market sentiment in the second quarter, revenue from investment product sales was 4.8% higher in the first half of 2018 than the same period a year ago. However, net fee and commission income recorded a drop, due to a high base in the first half of 2017 following the booking of several big-ticket insurance deals. Overall, operating income rose by 1.8% year-on-year. Both loans and assets under management decreased compared to year-end 2017.

Private Banking is continually working to improve operational efficiency and raise client satisfaction. At the back end, processing of Hong Kong stock trading orders has been automated. Additional products will be added to the straight-through processing platform, including debt securities, unit trusts and structured products.

With improving transport links and strengthening financial flows in the Greater Bay Area, there is good scope for accelerated growth in the region. The Greater Bay Area currently accounts for 19.6% of Private Banking's total AUM from the Mainland, and the Bank aims to double this proportion over the next three years. At the same time, Private Banking is putting additional focus on fast-growing inland cities, where the Bank's network gives it a competitive advantage over rival foreign banks.

Insurance & MPF Services

BEA Life Limited, the Bank's wholly-owned life insurance arm, emphasised profitability over top-line growth during the period under review. Focus shifted to long-term life insurance products, which bring in less new premium income than short-term products but generate higher commissions for the Bank and greater profit for the Company in the long run. As a result of this strategy, the Bank's commission income from BEA Life products maintained year-on-year growth in the first half of 2018.

BEA Life is taking steps to digitalise the application process for life insurance products. Since switching to e-forms for the compulsory Financial Needs Analysis procedure in May 2017, accuracy has improved and processing time has been reduced by around two thirds. A straight-through, paperless application platform is now under development, which will further shorten end-to-end processing time.

Blue Cross (Asia-Pacific) Insurance Limited, BEA's wholly-owned general insurance arm, achieved premium income growth of 9.8% year-on-year. The downward pressure on pricing seen in 2017 alleviated during the period under review, benefitting group medical business in particular. General insurance premiums generated online rose by 8.4% year-on-year, primarily from travel insurance. Online capabilities were further strengthened with the launch of an e-claims service for travel insurance in June 2018. In addition, an auto-renewal scheme will be introduced for all individual medical plans by the end of 2018 to reduce administrative costs and improve the renewal ratio.

Total membership in BEA's Mandatory Provident Fund schemes grew to more than 756,000 at the end of June 2018, while AUM stood at HK\$25.4 billion. Efforts to control costs by streamlining operations have been effective, with a positive impact on profits.

Business – China

The Mainland economy was resilient in the first half of 2018, growing by 6.8% year-on-year. The banking sector faced pressure as deleveraging measures reduced liquidity and drove up the cost of funding.

BEA's China banking operations recorded a net profit of HK\$393 million for the first half of 2018, up by 17.2% year-on-year. The increase was mainly attributable to a decline in impairment losses. Funding costs surged on the back of financial deleveraging measures implemented by the Central Government, leading to a narrowing of the net interest margin. Net interest income slid by 6.8% year-on-year to HK\$1,881 million as NIM fell by 22 basis points to 1.53%. The reduction in the reserve requirement ratio for most commercial and foreign banks in late April helped ease the situation. Nevertheless, BEA China continues to strive to reduce its funding costs.

Total loans to corporates and individuals for BEA's China banking operations stood at HK\$151,802 million as at the end of June 2018, the same level as at the end of 2017. Total customer deposits decreased by 4.9% to HK\$189,565 million.

Asset quality remained stable. The impaired loan ratio was 1.59% as at the end of June 2018, down by 20 basis points half-on-half. Meanwhile, the impaired loan gross formation rate was 0.98%, down by 47 basis points half-on-half due to a HK\$355 million decrease in new impaired loans in the first half of this year compared to the second half of last year.

Underlying operating expenses for China banking operations for the first half of 2018 were HK\$1,593 million, while the cost-to-income ratio was 65.5%. The high cost-to-income was mainly due to investment in the retail transformation programme, which underlies BEA China's long-term growth strategy.

BEA China continued to implement its network repositioning programme, consolidating a further 6 sub-branches with other outlets in the first half of the year. As at the end of June 2018, BEA China operated 30 branches and 71 sub-branches in 44 cities on the Mainland.

BEA China pressed ahead with its strategy to transform its retail business during the first half of 2018. Innovative credit card and consumer finance products, launched in partnership with leading internet platform companies last year, succeeded in attracting new customers in a cost-effective manner. BEA China will advance the retail business transformation by further enhancing co-operation with leading internet platform companies, revamping its mobile app, and developing remote banking channels to expand its customer base and enhance the customer experience.

With respect to corporate banking, BEA China focused on promoting non-property lending, sales of treasury products, integrated transaction-banking services, and cross-border financial solutions to optimise its asset portfolio and diversify its income sources. BEA China is working closely with other business units of the BEA Group to capture opportunities arising from the Greater Bay Area initiative.

In order to enhance operating efficiency and control risk, BEA China is in the process of implementing a functional line management structure and realigning its regional operating structure. For sustainable growth, BEA China will continue to invest in technology, consolidate its branch network, centralise operations, resolve impaired assets and control costs.

The Central Government has recently announced new measures to open the financial sector to greater foreign participation. The liberalisation moves will drive greater financial innovation on the Mainland and will bring augmented opportunities for the BEA Group to better serve the diversified financial needs of customers both on the Mainland and overseas.

Business – International

BEA's US operations delivered steady operating results in the first half of 2018. As at 30th June, 2018, the loan portfolio of New York and Los Angeles branches increased by 9.2% compared to the end of 2017. Operating profit slightly increased by 3.8% compared to the year-ago period, against a backdrop of rising funding costs and keen competition for quality loan assets that squeezed lending margins. Asset quality remained strong, with the impaired loan ratio standing at close to zero.

Buoyed by job growth and upbeat consumer confidence, which supported both household spending and business investment, the US economy continued to expand in the first half of 2018. However, uncertainties stemming from rising interest rates and the US government's trade policies are giving rise to concerns about future prospects.

The Bank's US operations will continue to expand its loan book by targeting high quality corporate syndication and bilateral deals, in particular in the commercial real estate sector. It will also focus on mergers and acquisitions in industries with positive prospects as well as financing investments by the Bank's Asian customers.

The Bank's operations in the United Kingdom registered steady loan growth compared to the prior year-end (up 13.7%), despite ongoing uncertainty regarding the outcome of the Brexit negotiations between the UK and the European Union. Lending pipelines for commercial and residential property remained strong. The UK operations continue to serve local communities and those from Asia.

The Bank's loan portfolio in the UK will be further diversified through participation in syndicated lending and club deals in various industries. UK operations will also work closely with the Bank's franchise in Mainland China to capture business opportunities arising from Chinese outbound investments to Europe.

Singapore's economy is forecast to grow by 3.2% in 2018. Singapore Branch will step up efforts to expand its syndicated and bilateral corporate loan and trade finance portfolio, especially among new-to-bank clients in the middle-market and large corporate segment. It will also focus on cross-selling treasury products. Leveraging the Bank's Mainland franchise, Singapore Branch will continue to provide effective financial solutions to facilitate trade flows with the Mainland and Mainland investments in Southeast Asia.

Operating as an offshore bank in Malaysia, Labuan Branch has pursued quality bilateral and syndication deals with leading Malaysian borrowers amidst a slower operating environment in the first half of 2018. Labuan Branch will continue to pay special attention to investment flows from Mainland China under the Belt and Road Initiative in order to capture new business opportunities.

Business – Macau and Taiwan

The operating environment for Macau Branch became even more challenging in the first half of the year. Loan demand was weak, leading to intense competition among lenders for quality assets. Margins were therefore compressed. Anticipating the slowdown, Macau Branch focused on retail banking and successfully expanded its range of unit trusts and insurance products and delivered a 48.4% increase in fee income year-on-year. Macau Branch plans to upgrade its core banking system and online retail banking platform in the second half of 2018.

Taiwan Branch also faced a lackluster local economy. Nonetheless, as of the end of June 2018 it had expanded its loan book by 4.8% compared to the position at the end of 2017. Taiwan Branch will continue to participate actively in local and international syndicated loans and look for opportunities to increase loan-related fee income and capture customers' sinking funds.

Looking ahead, the Bank's overseas branches will continue to serve large corporate customers from the Greater China region to facilitate their international business expansion. Overseas branches will also step up their efforts in liability management and seek to expand their deposit base so as to enhance liquidity management and reduce funding costs.

Other Subsidiaries & Associates

BEA Union Investment Management Limited

BEA Union Investment recorded a 3% increase in AUM in the first half of 2018. This growth was due to the Company's ongoing success in penetrating both the retail and institutional client segments in Europe and Asia.

In response to the growing demand from retail investors for funds that capture the investment opportunities in China, the China Gateway Fund was introduced at the beginning of the year.

In the first quarter of 2018, BEA Union Investment received approval to market its flagship products, Asian Bond and Currency Fund and Asia Pacific Multi Income Fund, in Mainland China under the Mainland-Hong Kong Mutual Recognition of Funds scheme. These two funds are being distributed via retail banks and online platforms in China.

Outside of the region, the Company also extended its distribution into Switzerland under the Hong Kong and Switzerland MRF scheme.

East Asia Qianhai Securities Company Limited

East Asia Qianhai Securities, in which the Bank owns a 49% stake, obtained a Securities and Futures Licence from the China Securities Regulatory Commission on 4th December, 2017. East Asia Qianhai Securities has been approved to engage in a range of businesses in the PRC, including investment banking, asset management, brokerage and proprietary trading. The joint venture has already commenced business in all four areas, with branches in Beijing, Shanghai and Shenzhen.

In the second quarter of 2018, East Asia Qianhai Securities successfully collaborated with BEA China to launch its first collective asset management product targeting retail investors, titled 「共贏一號」. More asset management products are in the pipeline.

Our People

As of 30th June, 2018, the BEA Group employed 9,603 people:

Continuing Operations	As of 30 th June, 2018	As of 31 st December, 2017 (Restated)	As of 30 th June, 2017 (Restated)
Hong Kong	5,144	5,305	5,277
Mainland China	3,879	4,086	4,115
Macau and Taiwan	158	156	159
Overseas	422	431	419
Total	9,603	9,978	9,970

** With effect from 2018, the headcount figures are grouped with reference to the segment reporting prepared by the Bank according to the HKFRS 8 Operating Segments. As such, the 2017 figures have been restated for comparison purposes.*

The Bank enhanced staff benefits in respect of annual leave, volunteer leave and medical protection during the period under review. Meanwhile, a Bank-wide initiative was launched to promote awareness of the Bank's vision, mission and core values. This culture is based on two guiding principles: prudent risk management and fair treatment of customers. Members of Senior Management and all General Managers of the Bank held a series of town halls to share the Bank's vision and culture in interactive sessions. In addition, the Bank held strategic leadership training for senior executives, performance management training for people managers, risk management training for all staff, induction training on core values and code of conduct for new joiners, etc. The Bank also continues to support an active management trainee programme, grooming staff for future leadership roles.

Future Prospects

Outlook

Worldwide economic conditions were generally favourable in the first half of 2018. However, prospects are less bright for the remainder of the year. In particular, rising trade tensions are generating concerns about adverse impacts on global trade flows and investor sentiment.

In the second half of 2018, BEA will continue to focus on deepening the digital transformation process, expanding fee income, containing operating costs and enhancing asset quality.

Digital transformation

Development of new digital, mobile and Fintech solutions will remain a priority, as the Bank puts emphasis on deepening relationships with customers, improving the customer experience, enhancing cybersecurity measures as well as safeguarding privacy of personal data and transactions. Digital engagement and Fintech collaboration will be further enhanced, and the Bank plans to introduce new payment solutions to address merchant and consumer needs.

Non-interest income

BEA will focus on raising non-interest income such as from retail/ corporate wealth management and private banking services. Ongoing efforts will be made to raise sales of securities and brokerage services, insurance and investment products as well as asset management services in order to generate additional recurring fee and commission income. In addition, the Bank will further consolidate and expand cross-border banking capabilities by leveraging its established presence on the Mainland.

Cost control

BEA is on track to complete its three-year, HK\$700 million cost-saving initiative as scheduled by the end of this year. Going forward, the Bank will continue to explore ways to reduce structural inefficiencies, in order to restrain the growth in operating costs.

Asset quality

BEA will continue to reduce its exposure to high-credit-risk and cyclical industries on the Mainland. Asset quality metrics on lending to Mainland customers should continue to be favourable. As a consequence, loan impairment charges are expected to decrease this year.

Retail transformation in China

With Mainland authorities' strict measures to deleverage and reduce financial risk, banks operating on the Mainland are under pressure from tight liquidity and rising funding costs.

To succeed in this operating environment, BEA China will continue to invest in technology and its retail transformation. It is also adopting prudent measures to manage its asset-and-liability mix and asset quality.

With the rise of a dynamic middle class in China and the strong increase in consumer spending, as well as the expansion of e-commerce and Fintech platforms, BEA China plans to expand its retail lending portfolio by leveraging its nationwide licence and branch network.

BEA China will continue to use technology to enhance the customer experience, manage credit and operational risks, drive efficiency and achieve scalability.

Partnership opportunities will be further explored in order to acquire new customers. Strong relationships with internet/mobile platforms should generate new opportunities to develop innovative solutions to meet evolving customer needs.

Our Centennial Milestone

As BEA approaches the 100th anniversary of our founding next year, the Bank will organise a series of activities and events to celebrate this momentous occasion with our customers, shareholders and the community at large.

As it looks towards the future, BEA continues to be driven by the desire to deliver quality financial solutions to the diverse customers and communities it serves. In so doing, BEA aspires to be the trusted and preferred banking partner in Greater China and beyond.

RISK MANAGEMENT

The Group has established an effective risk governance and management framework in line with the requirements set out by the Hong Kong Monetary Authority 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 its 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 coordination 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 expectation for 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 coordinates 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 monitored and regularly reviewed to align with 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 Bank 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. BEA 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, 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. The guidelines 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 financial instruments.

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 mainly denominated in USD and RMB. 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 managed with the principal objective of ensuring that the Group's reserves are protected from exchange rate fluctuations. 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, if 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.

Structural foreign exchange positions arising from net investments in branches and subsidiaries are not included in the VaR for the foreign exchange trading position.

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

	2018 - First Half			
	At 30 th June HK\$ Mn	Maximum HK\$ Mn	Minimum HK\$ Mn	Mean HK\$ 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

	2017 – First Half			
	At 30 th June HK\$ Mn	Maximum HK\$ Mn	Minimum HK\$ Mn	Mean HK\$ Mn
VaR for total trading activities	43	49	38	42
VaR for foreign exchange trading positions*	9	17	9	14
VaR for interest rate trading positions	3	4	2	3
VaR for equity trading positions	35	37	25	29

* 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 2018 was HK\$2.48 million (average daily profit of HK\$2.76 million for the first six months of 2017). The standard deviation of the daily profit/loss for the period was HK\$10.50 million (standard deviation of HK\$4.43 million for the same period in 2017).

(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 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 ("LCR") and Net Stable Funding Ratio ("NSFR").

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 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 implementation of LCR and NSFR imposes a more stringent regulatory regime for liquidity risk management on the Group. The LCR, which came into effect on 1st January, 2015, promotes the short-term resilience of the Group's liquidity risk by requiring that the Group hold sufficient high quality liquid assets ("HQLAs") to survive under a pre-defined stress scenario over a period of 30 days. It requires that Group meet the minimum LCR by 2019. During the transitional period, the percentage will increase from 60% in 2015 to 100% in 2019, with 10% added to the regulatory requirement each year from 2016.

The NSFR, which came into effect on 1st January, 2018, is being used as a complement to the LCR to observe funding risk over a longer time horizon by requiring banks to operate with sufficient stable sources of funding. The NSFR of the Group is now constantly maintained at 100% or above. To ensure compliance with the enhanced regulatory requirement, internal targets for LCR and NSFR have been set above regulatory required levels, making reference to the Group's liquidity risk appetite. In addition, material changes in the LCR and NSFR will be 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 assesses the impact of asset growth and funding structure on the LCR and NSFR with support from relevant business units for the Asset and Liability Management Committee's review and decision.

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 placements, and borrowing for the purposes of providing additional funding, maintaining a presence in local money markets, and optimising asset and liability maturities.

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.

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.

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 maintains sufficient HQLAs 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.

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 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 Chairman & Chief Executive, 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 2018, BEA issued floating rate certificates of deposit and debt securities with a face value of US\$788 million; fixed rate certificates of deposit and debt securities with a face value of HK\$3,809 million, US\$287 million, EUR460 million and JPY1,500 million; and zero coupon certificates of deposit and debt securities with a face value of HK\$878 million, US\$1,892 million, CNY9,850 million, GBP244 million and CHF75 million. The Group redeemed a quantity of certificates of deposit and debt securities amounting to HK\$33,205 million equivalent upon maturity.

At the end of June 2018, the face value of the outstanding certificates of deposit and debt securities issued was equivalent to HK\$51,963 million, with a carrying amount equivalent to HK\$51,678 million.

Maturity Profile of Certificates of Deposit and Debt Securities Issued

As at 30th June, 2018

(All expressed in millions of dollars)

	Total Face Value	<u>Year of Maturity</u>		
		<u>2018</u>	<u>2019</u>	<u>2020</u>
Floating Rate				
USD	855	47	788	20
Fixed Rate (Note)				
HKD	4,335	2,775	1,560	
USD	530	471	59	
JPY	3,500	2,000	1,500	
CHF	40	40		
EUR	220	220		
Zero Coupon				
HKD	1,371	1,371		
USD	2,319	2,094	225	
CNY	8,550	7,380	1,170	
GBP	315	118	197	
JPY	2,000	2,000		
CHF	95	20	75	
EUR	35	35		
Total Certificates of Deposit and Debt Securities issued in HKD equivalent	51,963	37,708	14,098	157

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.

At the end of June 2018, the face value of the outstanding loan capital issued was equivalent to HK\$12,554 million, with a carrying amount equivalent to HK\$12,306 million.

Maturity Profile of Loan Capital

As at 30th June, 2018

(All expressed in millions of dollars)

	Total Face Value	<u>Year of Maturity</u>		
		<u>2020</u>	<u>2024</u>	<u>2026</u>
USD (Notes 1 & 2)	1,600	600	500	500
Total Loan Capital issued in HKD equivalent	12,554	4,708	3,923	3,923

Notes:

1. The US\$500 million loan capital that matures in 2024 will be callable on 20th November, 2019.
2. The US\$500 million loan capital that matures in 2026 will be callable on 3rd November, 2021.

(e) Interest rate risk management

Interest rate risk is the risk resulting from adverse movements in interest rates. 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-bearing assets, liabilities, and off-balance sheet items in the banking book. In determining the level of interest rate risk, assessments are made for the re-pricing risk, basis risk, options risk, and yield curve 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 assets, liabilities, and off-balance sheet positions. Re-pricing gap limits are set to control the Group's interest rate risk.

Sensitivity analysis in relation to the impact of changes in interest rates on earnings and economic value is assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on the Group's assets, liabilities, and off-balance sheet positions and is performed on a monthly basis. 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.

Capital management through projection of the Capital Adequacy Ratio and Internal Capital Adequacy Assessment Process is also regularly conducted 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, and issues regular reminders to staff members. 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 for advice.

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 such 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 Bank Group maintains a high standard of corporate governance, which in turn helps 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 Bank Group. The Guidelines for Incident Response and Management is established for swift response to and management of unexpected incidents. The Media Guidelines is 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 Bank Group to manage its compliance risk effectively. Independent regulatory compliance reviews are conducted on major functions of the Bank 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 or 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 the potential significant risks are duly assessed, documented, and vetted before initiating a new product or business. 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 department heads of supporting/control units and representatives of risk controllers), endorsed by the Steering Group for New Product and Business Risk Management (chaired by the Bank's Group Chief Risk Officer and comprising the division heads of supporting/control 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 supports a wide range of important initiatives under the three pillars of its community investment programme, namely education, social welfare, and the environment.

For the third consecutive year, 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 Chest's member agencies. On the environmental front, BEA won the Gold Award in the Servicing and Trading category of the prestigious Hong Kong Awards for Environmental Excellence in recognition of its excellent performance in environmental management.

The BEA Foundation continued to support beneficiaries of its three flagship projects, namely the Palliative Care in Residential Care Homes for the Elderly Programme, the BEA Parent-Child Reading Programme, and the BEA "High Five Club". On the Mainland, the Shanghai Soong Ching Ling Foundation – BEA Charity Fund renewed its commitment to the Firefly Centre Development Programme by signing an agreement with "la Caixa" Foundation in May 2018 to continue supporting the development of education at rural schools for an additional three years.

In June 2018, the Bank conducted a series of environmental, social, and governance ("ESG") workshops for its senior executives and managers with the aim of creating a greater understanding of sustainability issues and raising awareness of the importance of ESG throughout the entire organisation. BEA continued to ensure that its units complied with its 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 (About BEA / Corporate Social Responsibility).

RECOGNITION

During the first six months of 2018, the Bank received a number of awards in recognition of its achievements. These included:

- "2018 Best SME's Partner Award" (for the eleventh consecutive year) from The Hong Kong General Chamber of Small and Medium Business;
- "Quamnet Outstanding Enterprise Awards 2017 – Outstanding SME Service Provider (Bank)" (for the fifth consecutive year) from Quam (H.K.) Limited;
- "Outstanding Intelligent Digital Branch" in the FinTech Awards 2017 from ET Net;
- "Excellent Brand of Smart Banking" in the Hong Kong Leaders' Choice 2018 from Metro Finance;
- "Excellence of the Year for Innovation, Banking, China" in the Le Fonti Awards from Le Fonti;
- "The Best Retail Bank in Hong Kong" and "The Best Digital Distribution Network of the Year" in the Asian Banker Excellence in Retail Financial Services Awards 2018 from *The Asian Banker*;
- The Excellence Award in "Branch Innovation", Outstanding Award in "Retail Banking", "Mobile Usability", and "Integrated Marketing" in the Financial Institution Awards 2018 from *Bloomberg Businessweek* (Chinese Edition);
- "Outstanding UPOP Merchant Business Award 2017" from Unionpay International;
- "Most Innovative Online Payment Platform with Mastercard® Send™ – BEA i-Payment Hub" and "Best Youth Card Program - BEA i-Titanium Card" from Mastercard; and
- "BENCHMARK Private Wealth Awards 2017 – Bronze Winner for China Team of the Year" from WealthAsia Media Limited;

In addition, The Bank of East Asia (China) Limited earned the following distinctions:

- "Best Foreign Bank" in the 2017 Wealth Management Registration from China Banking Wealth Management Registration & Depository Co., Ltd.;
- "2017 Active Local Currency Market Interbank Trader" from China Foreign Exchange Trade System & National Interbank Funding Center;
- "Outstanding Institution for Proprietary Trading" in the 2017 Best Member of CCDC Awards from China Central Depository & Clearing Co., Ltd.; and
- "Best Transaction Bank" in the 2017 Banking e-Finance Innovation Award from China e-Finance Union.

BEA Union Investment received a number of awards in recognition of its management and the performance of its funds. For BEA Union Investment:

- "BENCHMARK Fund of the Year Awards 2017 – Asia Fixed Income within Mutual Funds' House Awards, Best-In-Class" from *BENCHMARK* magazine; and
- "The Asset Benchmark Research 2018 – One of the Top Investment Houses in Asian Local Currency Bonds – Hong Kong" from *The Asset*.

For the BEA Union Investment Asian Bond and Currency Fund:

- "Best Bond Fund, Asia Pacific HC" from Thomson Reuters Lipper Fund Award Programme 2018 Hong Kong (for its 3-year performance); and
- "Best Bond Fund, Asia Pacific HC" from Thomson Reuters Lipper Fund Award Programme 2018 Hong Kong (for its 5-year performance).

PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

On 16th March, 2018, the Bank completed the redemption of a face value of US\$15 million of 2.25% Senior Notes (the "2018 USD Senior Notes") upon their maturity. The 2018 USD Senior Notes were issued in 2015 under the Bank's Medium Term Note Programme and listed on the Singapore Exchange.

Save for the redemption of the 2018 USD Senior Notes as disclosed herein, 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, 2018.

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.

During the six months ended 30th June, 2018, the Bank has complied with all the Code Provisions set out in the CG Code, except for Code Provision A.2.1 as explained below. 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.

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Dr. the Hon. Sir David LI Kwok-po is the Chairman & Chief Executive of the Bank. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Bank. The division of responsibilities between the Chairman and the Chief Executive is clearly established and set out in the job mandate of the Chairman & Chief Executive. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals and meets regularly to discuss issues affecting operations of the Bank. There is a strong independent element in the composition of the Board. The Board believes that the current structure is conducive to strong and consistent leadership, enabling the Bank to make and implement decisions promptly and efficiently and that Sir David's appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects and management of the Bank.

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 30th June, 2018 and the Bank's Interim Report 2018.

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 30th June, 2018.

By order of the Board

David LI Kwok-po

Chairman & Chief Executive

Hong Kong, 29th August, 2018

As at the date of this announcement, the Board of Directors of the Bank comprises Dr. the Hon. Sir David LI Kwok-po[#] (Chairman & Chief Executive), 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[#] (Deputy Chief Executive), Mr. Brian David LI Man-bun[#] (Deputy 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**, The Hon. CHAN Kin-por** and Dr. Delman LEE**.*

[#] *Executive Director*

^{*} *Non-executive Director*

^{**} *Independent Non-executive Director*

GLOSSARY

詞彙

AC 「審核委員會」	the Audit Committee of the Bank 本行的審核委員會
AUM 「管理資產」	Assets under management 管理資產
Bank Group or BEA Group or Group 「集團」或「本集團」	The Bank and its subsidiaries 東亞銀行及其附屬公司
Bank or BEA 「本行」或「東亞銀行」	The Bank of East Asia, Limited, a limited liability company incorporated in Hong Kong 東亞銀行有限公司，於香港註冊成立的有限公司
Bank Culture Reform 「銀行企業文化改革」	The circular in respect of Bank Culture Reform, issued by the HKMA on 2 nd March, 2017 金管局於2017年3月2日發出之銀行企業文化改革通告
Banking Ordinance 《銀行業條例》	Hong Kong Banking Ordinance (Chapter 155 of the Laws of Hong Kong) 香港《銀行業條例》（香港法例第 155 章）
BEA China 「東亞中國」	The Bank of East Asia (China) Limited, a wholly-owned subsidiary of the Bank 東亞銀行(中國)有限公司，本行的全資附屬公司
BEA Life 「東亞人壽」	BEA Life Limited, a wholly-owned subsidiary of the Bank 東亞人壽保險有限公司，本行的全資附屬公司
BEA Union Investment 「東亞聯豐投資」	BEA Union Investment Management Limited, a non-wholly-owned subsidiary of the Bank 東亞聯豐投資管理有限公司，本行的非全資附屬公司
Blue Cross 「藍十字」	Blue Cross (Asia-Pacific) Insurance Limited, a wholly-owned subsidiary of the Bank 藍十字（亞太）保險有限公司，本行的全資附屬公司
Board 「董事會」	Board of Directors of the Bank 本行的董事會
Capital Rules 「《資本規則》」	Banking (Capital) Rules issued by the HKMA 金管局頒布的《銀行業(資本規則)》
CASA 「往來賬戶及儲蓄賬戶」	Current and savings account 往來賬戶及儲蓄賬戶
CG Code 「《企業管治守則》」	Corporate Governance Code and Corporate Governance Report, Appendix 14 of the Listing Rules 《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 「CG-1」	Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorized Institutions, issued by the HKMA 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 「CG-5」	Supervisory Policy Manual CG-5 on Guideline on a Sound Remuneration System, issued by the HKMA 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 「瑞士法郎」	Swiss franc, the lawful currency of Switzerland 瑞士法定貨幣
China, Mainland, Mainland China, or PRC 「中國」或「內地」	People's Republic of China 中華人民共和國
CNY or RMB 「人民幣」	Chinese yuan or Renminbi, the lawful currency of the PRC 中國法定貨幣
Companies Ordinance 「《公司條例》」	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) 《公司條例》（香港法例第 622 章）
Credit Gain 「領達財務」	Credit Gain Finance Company Limited, a wholly-owned subsidiary of the Bank 領達財務有限公司，本行的全資附屬公司
Director(s) 「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 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
Guidance on Empowerment of INEDs 「提升獨立非執行董事的專業能力指引」	The guidance on Empowerment of Independent Non-Executive Directors (INEDs) in the Banking Industry in Hong Kong, issued by the HKMA on 14 th December, 2016 金管局於2016年12月14日頒布之提升香港銀行業獨立非執行董事的專業能力指引
East Asia Qianhai Securities 「東亞前海證券」	East Asia Qianhai Securities Company Limited 東亞前海證券有限責任公司
ERM 「企業風險管理架構」	Enterprise Risk Management 企業風險管理架構
EUR 「歐元」	Euro 歐元區法定貨幣
FVTPL 「通過損益以反映公平價值」	Fair value through profit or loss 通過損益以反映公平價值
FVOCI 「通過其他全面收益以反映公平價值」	Fair value through other comprehensive income 通過其他全面收益以反映公平價值
GBP 「英鎊」	Pound sterling, the lawful currency of the UK 英國法定貨幣
GDP 「本地生產總值」	Gross domestic product 本地生產總值
Greater Bay Area 「大灣區」	Guangdong-Hong Kong-Macao Greater Bay Area 粵港澳大灣區
HK\$ or HKD 「港幣」	Hong Kong dollar, the lawful currency of Hong Kong 香港法定貨幣
HKAS 「香港會計準則」	Hong Kong Accounting Standards 香港會計準則

HKEx 「香港交易所」	Hong Kong Exchanges and Clearing Limited 香港交易及結算所有限公司
HKFRS 「香港財務報告準則」	Hong Kong Financial Reporting Standards 香港財務報告準則
HKICPA 「香港會計師公會」	Hong Kong Institute of Certified Public Accountants 香港會計師公會
HKMA 「金管局」	Hong Kong Monetary Authority 香港金融管理局
Hong Kong or HK or HKSAR 「香港」	Hong Kong Special Administrative Region of PRC 中華人民共和國香港特別行政區
HKFRS9 「財務報告第9號」	Hong Kong Financial Reporting Standard 9: Financial Instruments 香港財務報告準則第9號：監管匯報
HQLAs 「優質流動資產」	High quality liquid assets 優質流動資產
JPY 「日圓」	Japanese yen, the lawful currency of Japan 日本法定貨幣
LCR 「流動性覆蓋比率」	Liquidity coverage ratio 流動性覆蓋比率
Listing Rules 「《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) 聯交所《證券上市規則》，經不時修訂、修改或以其他方式補充
Macau Branch 「澳門分行」	The Bank's branch operations in Macau 本行的澳門分行
Moody's 「穆迪」	Moody's Investor Service 穆迪信貸服務
Mn 「百萬」	Million 百萬
MPF 「強積金」	Mandatory Provident Fund 強制性公積金
MRF scheme 「基金互認計劃」	Mutual Recognition of Funds scheme 基金互認計劃
NIM 「淨息差」	Net interest margin 淨息差
NSFR 「穩定資金淨額比率」	Net Stable Funding Ratio 穩定資金淨額比率
OCI 「其他全面收益」	Other comprehensive income 其他全面收益

Senior Management 「高層管理人員」	The Chief Executive, Executive Directors and Deputy Chief Executives of the Bank 本行的行政總裁，執行董事及副行政總裁
Share 「股份」	Ordinary shares of the Bank 本行普通股
SME 「中小企」	Small and medium-sized enterprise 中小型企業
Stock Exchange 「聯交所」	The Stock Exchange of Hong Kong Limited 香港聯合交易所有限公司
UK 「英國」	United Kingdom 英國
US 「美國」	United States of America 美利堅合眾國
US\$ or USD 「美元」	United States dollar, the lawful currency of the US 美國法定貨幣
VaR 「風險值」	value-at-risk 風險值