BEA 東亞銀行

The Bank of East Asia, Limited
東亞銀行有限公司

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

ANNOUNCEMENT OF 2019 INTERIM RESULTS

INTERIM RESULTS

The Board of Directors of the Bank is pleased to announce the unaudited results (Note 1(a)) of the Group for the six months ended 30th June, 2019.

Consolidated Income Statement

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

Consolidated Statement of Comprehensive Income

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

Consolidated Statement of Financial Position

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

Consolidated Statement of Changes in Equity

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

Note:.Other reserves include statutory reserve and other reserves.

Condensed Consolidated Cash Flow Statement

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

Notes:

1. (a) The information in this announcement is not audited or reviewed by the external auditors but is extracted from the interim report prepared under HKAS 34 "Interim Financial Reporting" issued by the HKICPA. Hence this announcement does not constitute the Group's statutory accounts. The interim report, which has been reviewed by the Bank's Audit Committee, is prepared on a basis consistent with the accounting policies and methods of computation adopted in the 2018 audited accounts, except for the accounting policy changes required under new HKFRSs and amendments that are first effective for the current accounting period as described in note 2 below, or otherwise explicitly stated, and has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA, whose unmodified review report is included in the interim report which will be published on the websites of the HKEx and the Bank, together with the disclosures required by the Banking (Disclosure) Rules issued by the HKMA.

The financial information relating to the financial year ended 31st December, 2018 that is included in the interim financial report as comparative information does not constitute the Bank's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31st December 2018 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

(b) (i) The calculation of basic earnings per share is based on the consolidated profit for the period attributable to owners of the parent of HK$643 million (six months ended 30th June, 2018: HK$3,635 million) respectively after the distribution of HK$357 million (six months ended 30th June, 2018: HK$357 million) to Hybrid/Additional Tier 1 issue holders, and on the weighted average of 2,869 million (six months ended 30th June, 2018: 2,786 million) ordinary shares outstanding during the six months ended 30th June, 2019.

(ii) The calculation of diluted earnings per share is based on the consolidated profit for the period attributable to owners of the parent of HK$643 million (six months ended 30th June, 2018: HK$3,635 million) respectively after the distribution of HK$357 million (six months ended 30th June, 2018: HK$357 million) to Hybrid/Additional Tier 1 issue holders, and on 2,869 million (six months ended 30th June, 2018: 2,787 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30th June, 2019, adjusted for the effects of all dilutive potential shares.

(c) Distribution/Dividends

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

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Interim dividend declared after the interim period of HK$0.11 per share on 2,897 million shares (six months ended 30th June, 2018: HK$0.51 per share on 2,808 million shares)	319	1,432

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

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

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

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

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Interest paid or payable on the Hybrid Tier 1 capital instruments	106	106
Amount paid on the Additional Tier 1 capital instruments	251	251
	357	357

(d) Share Capital

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

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

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, 2018.

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

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

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

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

(a) Definition of a lease

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

(b) As a lessee

The Group leases many assets, including properties and equipments.

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

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

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

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

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

i. Significant accounting policies

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

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

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

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

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

ii. Transition

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

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

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

(c) As a lessor

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

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

(d) Impacts on transition

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

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

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

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

3. Interest Income

	6 months ended 30/6/2019 HK$ Mn	6 months ended 30/6/2018 HK$ Mn
Loans, deposits with banks and financial institutions, and trade bills	12,218	10,262
Investment securities		
- at amortised cost or FVOCI	2,095	1,660
- designated at FVTPL	64	53
- mandatory at FVTPL	133	119
Trading assets	46	89
	14,556	12,183

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

The above included HK$14,259 million (six months ended 30th June, 2018: HK$11,943 million) interest income, before hedging effect, for financial assets that are not recognised at fair value through profit or loss.

4. Interest Expense

	6 months ended 30/6/2019 HK$ Mn	6 months ended 30/6/2018 HK$ Mn
Customer deposits, deposits of banks and other financial institutions		
- at amortised cost	5,870	5,159
- designated at FVTPL	32	18
Certificates of deposit and debt securities issued		
- at amortised cost	659	323
- designated at FVTPL	205	129
Subordinated notes carried at amortised cost	361	300
Lease liabilities	21	-
Other borrowings	2	4
	7,150	5,933

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

The above included HK$6,881 million (six months ended 30th June, 2018: HK$5,801 million) interest expense, before hedging effect, for financial liabilities that are not recognised at fair value through profit or loss.

5. Fee and Commission Income

Fee and commission income is disaggregated by services:

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Credit cards	598	525
Loans, overdrafts and guarantees	364	343
Other retail banking services	182	194
Trade finance	169	164
Trust and other fiduciary activities	146	152
Securities and brokerage	101	179
Investment products	56	78
Sale of third party insurance policies	33	29
Financial consultancy	19	43
Others	227	228
Total fee and commission income	1,895	1,935
of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not measured at FVTPL	1,379	1,379
Fee income	1,895	1,935
Fee expenses	(516)	(556)

6. Net Trading Profits

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

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

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

8. Net Hedging Profit

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

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

9. Net Insurance Revenue

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

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

11. Operating Expenses

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

12. Impairment Losses on Financial Instruments

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Loans and advances to customers	5,015	298
Others	48	(16)
	5,063	282

13. Net Profit on Sale of Financial Assets at FVOCI

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

14. Net Profit on Sale of Assets Held for Sale

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

15. Net Loss on Disposal of Fixed Assets

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

16. Income Tax

Taxation in the consolidated income statement represents:

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

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

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

17. Cash and Balances with Banks and Other Financial Institutions

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

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

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

19. Trade Bills

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

20. Trading Assets

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

21. Loans and Advances to Customers

(a) Loans and advances to customers

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

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

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

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

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

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

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

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

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

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

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

	30/6/2019				
	Total 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	241,678	343	2,445	1,400	255
Mainland China	198,151	2,354	5,152	2,403	892
Other Asian Countries and Regions	26,898	138	406	143	69
Others	44,554	-	332	-	20
Total	511,281	2,835	8,335	3,946	1,236
% of total advances to customers			1.63%		
Market value of collateral held against impaired advances to customers			6,640		

	31/12/2018				
	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	225,656	367	559	224	260
Mainland China	203,377	2,405	2,515	776	871
Other Asian Countries and Regions	27,634	121	396	61	117
Others	43,964	-	21	-	38
Total	500,631	2,893	3,491	1,061	1,286
% of total advances to customers			0.70%		
Market value of collateral held against impaired advances to customers			2,414		

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

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

22. Investment Securities

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

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

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

Equity securities designated at FVOCI

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

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

23. Fixed Assets

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

24. Other Assets

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

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

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

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

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

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

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

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

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

The carrying amount of financial liabilities designated as at FVTPL at 30 June 2019 was HK$100 million lower than the contractual amount due at maturity (31/12/2018: HK$57 million lower).

26. Trading Liabilities

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Shares sold	38	-

27. Other Liabilities

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

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

28. Loan Capital

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

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

(1) Two tranches of loan capital of face value totalling HK$4,688 million (USD600 million) and carrying amount totalling HK$4,730 million (31/12/2018: HK$4,710 million) were issued on 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 2019 (first half 2018: HK$3 million loss).

(2) Loan capital of face value of HK$3,907 million (USD500 million) and carrying amount of HK$3,897 million (31/12/2018: HK$3,878 million) represents 4.25% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 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$0.05 million profit was recorded in first half of 2019 (first half 2018: HK$1 million loss).

(3) Loan capital of face value of HK$3,907 million (USD500 million) and carrying amount of HK$3,862 million (31/12/2018: HK$3,770 million) represents 4% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 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$0.7 million loss was recorded in first half of 2019 (first half 2018: HK$2 million loss).

(4) Loan capital of face value of HK$1,707 million (RMB1,500 million) and carrying amount of HK$1,704 million represents 4.94% subordinated notes issued on 25th April, 2019 by the Bank's subsidiary, The Bank of East Asia (China) Limited. The notes will mature on 25th April, 2029.

29. Segment Reporting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

30. Analysis of Assets and Liabilities by Remaining Maturity

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

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

31. Deferred Tax Assets and Liabilities Recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the period are as follows:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation	Revaluation of properties	Impairment losses on financial assets	Revaluation of financial assets at FVOCI	Tax losses	Others	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
At 1st January, 2019	289	113	(675)	74	-	201	2
(Credited)/Charged to income statement	31	-	(812)	-	(6)	(264)	(1,051)
(Credited)/Charged to reserve	-	(1)	-	46	-	1	46
Exchange and other adjustments	-	-	16	-	1	4	21
At 30th June, 2019	320	112	(1,471)	120	(5)	(58)	(982)
Balance as at 31st December, 2018	289	113	(675)	74	-	201	2

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

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

32. Reserves

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

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

33. Additional Equity Instruments

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

(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$3,878 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.625% coupon until the first call date on 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.

34. Consolidated Cash Flow Statement

Cash and cash equivalents

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

35. Offsetting Financial Instruments

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

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

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

	At 31st December, 2018				
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related financial instruments that are not set off	Net amount
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Assets					
Derivative assets	20	-	20	(19)	1
Other assets	441	(423)	18	-	18
Total	461	(423)	38	(19)	19

	At 31st December, 2018				
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related financial instruments that are not set off	Net amount
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Liabilities					
Derivative liabilities	48	-	48	(19)	29
Other liabilities	423	(423)	-	-	-
Total	471	(423)	48	(19)	29

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

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

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

36. Fair Values of Financial Instruments

(a) Financial instruments carried at fair value

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

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

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

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or counterparty quotations. For all other financial instruments the Group determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models and various market-wide recognised option pricing models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, equity prices, foreign currency exchange rates, index prices, historical or implied volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price of the financial instrument that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the reporting date.

The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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

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

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

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

During the period ended 30th June, 2019 and year ended 31st December, 2018, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about significant unobservable inputs in Level 3 valuations:

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

The fair values of unlisted equity instruments mandatorily measured at FVTPL or measured at FVOCI are estimated using the discounted cash flow model, on the basis of an analysis of the investee's financial position and results, or with reference to multiples of comparable listed companies, such as price/earning ratio of comparables, adjusted for a marketability discount to reflect the fact that the shares are not actively traded. An increase in the ratio / investee's financial position and results in isolation will result in favourable movement in the fair values, while an increase in discount rate / marketability discount in isolation will result in unfavourable movement.

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

(1) Valuation of financial instruments with significant unobservable inputs

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

	30/6/2019		31/12/2018	
	Investment securities mandatorily measured at FVTPL	Investment securities at FVOCI	Investment securities mandatorily measured at FVTPL	Investment securities at FVOCI
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Assets				
At 1st January	309	688	213	349
Purchases	-	-	124	43
Settlements	(7)	-	(13)	-
Changes in fair value recognised in the income statement	(15)	-	(15)	-
Changes in fair value recognised in the other comprehensive income	-	417	-	296
At 30th June/31st December	287	1,105	309	688
Total gains or losses for the period included in FVOCI fair value reserve of the other comprehensive income for assets held at the end of the reporting period	-	417	-	296
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	(15)	-	(15)	-

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

	30/6/2019			
	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Financial assets				
Investment securities mandatorily measured at FVTPL	24	(24)	-	-
Investment securities at FVOCI	-	-	92	(92)
	24	(24)	92	(92)

	31/12/2018			
	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Financial assets				
Investment securities mandatorily measured at FVTPL	26	(26)	-	-
Investment securities at FVOCI	-	-	57	(57)
	26	(26)	57	(57)

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

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

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

(i) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the end of the reporting period.

(ii) The fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances from both the carrying amount and fair value.

(iii) The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

(iv) The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30th June, 2019 and 31st December, 2018 except as follows:

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

37. Credit Risk

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

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

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

- The exposure has a significant deterioration of internal or external rating as compared with the rating at the time when the exposure was originated; and

- The rating of the exposure falls out of the "Low-Credit Risk Threshold" that equivalent to the globally understood definition of "investment grade"

a. Credit Quality Analysis

Credit quality of loans and advances

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

	30/6/2019							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$Mn
Loans and advances to customers at amortised cost								
- Grades 1 - 15: Pass	473,718	1,133	21,740	99	-	-	495,458	1,232
- Grades 16 - 17: Special Mention	-	-	7,488	56	-	-	7,488	56
- Grade 18: Substandard	-	-	-	-	5,735	8	5,735	8
- Grade 19: Doubtful	-	-	-	-	2,028	151	2,028	151
- Grade 20: Loss	-	-	-	-	572	203	572	203
Total gross carrying amount	473,718	1,133	29,228	155	8,335	362	511,281	1,650
Impairment allowances	(387)	(1)	(849)	(4)	(3,946)	(208)	(5,182)	(213)
Carrying amount	473,331	1,132	28,379	151	4,389	154	506,099	1,437

	31/12/2018							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$Mn
Loans and advances to customers at amortised cost								
- Grades 1 - 15: Pass	465,980	1,124	25,413	100	-	-	491,393	1,224
- Grades 16 - 17: Special Mention	-	-	5,747	29	-	-	5,747	29
- Grade 18: Substandard	-	-	-	-	1,226	17	1,226	17
- Grade 19: Doubtful	-	-	-	-	1,718	109	1,718	109
- Grade 20: Loss	-	-	-	-	547	187	547	187
Total gross carrying amount	465,980	1,124	31,160	129	3,491	313	500,631	1,566
Impairment allowances	(431)	(1)	(855)	(4)	(1,061)	(191)	(2,347)	(196)
Carrying amount	465,549	1,123	30,305	125	2,430	122	498,284	1,370

Credit quality of financial assets other than loans and advances

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

	30/6/2019							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Trade bills at amortised cost								
- Grades 1 - 15: Pass	1,029	13	2	-	-	-	1,031	13
- Grades 16 - 17: Special Mention	-	-	-	-	-	-	-	-
- Grade 18: Substandard	-	-	-	-	-	-	-	-
- Grade 19: Doubtful	-	-	-	-	-	-	-	-
- Grade 20: Loss	-	-	-	-	-	-	-	-
Total gross carrying amount	1,029	13	2	-	-	-	1,031	13
Impairment allowances	-	-	-	-	-	-	-	-
Carrying amount	1,029	13	2	-	-	-	1,031	13

	31/12/2018							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Trade bills at amortised cost								
- Grades 1 - 15: Pass	2,816	45	69	-	-	-	2,885	45
- Grades 16 - 17: Special Mention	-	-	-	-	-	-	-	-
- Grade 18: Substandard	-	-	-	-	-	-	-	-
- Grade 19: Doubtful	-	-	-	-	1	-	1	-
- Grade 20: Loss	-	-	-	-	-	-	-	-
Total gross carrying amount	2,816	45	69	-	1	-	2,886	45
Impairment allowances	(3)	-	-	-	(1)	-	(4)	-
Carrying amount	2,813	45	69	-	-	-	2,882	45

	30/6/2019							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Trade bills at FVOCI								
- Grades 1 - 15: Pass	10,401	1	1,394	-	-	-	11,795	1
Total carrying amount at fair value	10,401	1	1,394	-	-	-	11,795	1
Impairment allowances	(4)	-	(3)	-	-	-	(7)	-

	31/12/2018							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Trade bills at FVOCI								
- Grades 1 - 15: Pass	11,541	2	223	-	-	-	11,764	2
Total carrying amount at fair value	11,541	2	223	-	-	-	11,764	2
Impairment allowances	(5)	-	-	-	-	-	(5)	-

	30/6/2019							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Placements with and advances to banks and other financial institutions								
- Grades 1 - 15: Pass	69,728	52	-	-	-	-	69,728	52
Total gross carrying amount	69,728	52	-	-	-	-	69,728	52
Impairment allowances	(8)	-	-	-	-	-	(8)	-
Carrying amount	69,720	52	-	-	-	-	69,720	52

	31/12/2018							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Placements with and advances to banks and other financial institutions								
- Grades 1 - 15: Pass	60,224	127	159	-	-	-	60,383	127
Total gross carrying amount	60,224	127	159	-	-	-	60,383	127
Impairment allowances	(10)	-	-	-	-	-	(10)	-
Carrying amount	60,214	127	159	-	-	-	60,373	127

	30/6/2019			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Loan commitments				
- Grades 1 - 15: Pass	122,915	5,379	-	128,294
- Grades 16 - 17: Special Mention	-	173	-	173
- Grade 18: Substandard	-	-	554	554
Total	122,915	5,552	554	129,021
Impairment allowances	(49)	(37)	-	(86)
Financial guarantee contracts				
- Grades 1 - 15: Pass	22,215	2,326	-	24,541
- Grades 16 - 17: Special Mention	-	4	-	4
- Grade 18: Substandard	-	-	-	-
Total	22,215	2,330	-	24,545
Impairment allowances	(6)	(8)	-	(14)

	31/12/2018			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Loan commitments				
- Grades 1 - 15: Pass	111,004	5,822	-	116,826
- Grades 16 - 17: Special Mention	-	58	-	58
Total	111,004	5,880	-	116,884
Impairment allowances	(56)	(40)	-	(96)
Financial guarantee contracts				
- Grades 1 - 15: Pass	25,136	2,101	-	27,237
- Grades 16 - 17: Special Mention	-	7	-	7
Total	25,136	2,108	-	27,244
Impairment allowances	(10)	(5)	-	(15)

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

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

	30/6/2019							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Debt investment securities at amortised cost								
Aaa	-	-	-	-	-	-	-	-
Aa1 to Aa3	2,848	1	-	-	-	-	2,848	1
A1 to A3	5,628	99	-	-	-	-	5,628	99
Baa1 to Baa3	2,560	33	-	-	-	-	2,560	33
Below Baa3	1,903	27	79	1	-	-	1,982	28
Unrated	6,119	74	28	1	-	-	6,147	75
Total gross carrying amount	19,058	234	107	2	-	-	19,165	236
Impairment allowances	(74)	-	(2)	-	-	-	(76)	-
Carrying amount	18,984	234	105	2	-	-	19,089	236

	31/12/2018							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Debt investment securities at amortised cost								
Aaa	-	-	-	-	-	-	-	-
Aa1 to Aa3	2,695	2	-	-	-	-	2,695	2
A1 to A3	6,007	103	-	-	-	-	6,007	103
Baa1 to Baa3	2,546	32	-	-	-	-	2,546	32
Below Baa3	1,492	20	-	-	-	-	1,492	20
Unrated	6,347	76	28	1	-	-	6,375	77
Total gross carrying amount	19,087	233	28	1	-	-	19,115	234
Impairment allowances	(93)	(1)	(1)	-	-	-	(94)	(1)
Carrying amount	18,994	232	27	1	-	-	19,021	233

	30/6/2019							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Debt investment securities at FVOCI								
Aaa	6,444	7	-	-	-	-	6,444	7
Aa1 to Aa3	21,211	5	-	-	-	-	21,211	5
A1 to A3	48,622	623	-	-	-	-	48,622	623
Baa1 to Baa3	37,077	396	-	-	-	-	37,077	396
Below Baa3	1,338	13	-	-	-	-	1,338	13
Unrated	8,755	103	234	3	-	-	8,989	106
Total carrying amount at fair value	123,447	1,147	234	3	-	-	123,681	1,150
Impairment allowances	(235)	(2)	(4)	-	-	-	(239)	(2)

	31/12/2018							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Debt investment securities at FVOCI								
Aaa	5,566	8	-	-	-	-	5,566	8
Aa1 to Aa3	19,355	7	-	-	-	-	19,355	7
A1 to A3	41,890	627	-	-	-	-	41,890	627
Baa1 to Baa3	31,302	336	-	-	-	-	31,302	336
Below Baa3	1,157	15	-	-	-	-	1,157	15
Unrated	9,856	130	233	3	-	-	10,089	133
Total carrying amount at fair value	109,126	1,123	233	3	-	-	109,359	1,126
Impairment allowances	(257)	(3)	(6)	-	-	-	(263)	(3)

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

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

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

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

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

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

Cash and balances with banks and other financial institutions

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

b. Impairment Allowances Reconciliation

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

	30/6/2019			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Loans and advances to customers				
Balance at 1st January	432	859	1,252	2,543
Transfer to 12-month ECL	94	(94)	-	-
Transfer to lifetime ECL not credit-impaired	(20)	36	(16)	-
Transfer to lifetime ECL credit-impaired	(770)	(711)	1,481	-
New financial assets originated or purchased, assets derecognised, repayments and further lending	55	14	321	390
Write-offs	-	-	(2,139)	(2,139)
Changes in models	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	597	749	3,255	4,601
Balance at 30th June	388	853	4,154	5,395
Of which:				
For advance to customers at amortised cost	387	849	3,946	5,182
For related accrued interest receivable	1	4	208	213
	388	853	4,154	5,395

	31/12/2018			
	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 1st January	839	1,028	1,177	3,044
Transfer to 12-month ECL	151	(151)	-	-
Transfer to lifetime ECL not credit-impaired	(8)	23	(15)	-
Transfer to lifetime ECL credit-impaired	(98)	(203)	301	-
New financial assets originated or purchased, assets derecognised, repayments and further lending	(88)	(230)	376	58
Write-offs	-	-	(1,649)	(1,649)
Changes in models	(229)	287	17	75
Net remeasurement of impairment allowances (including exchange adjustments)	(135)	105	1,045	1,015
Balance at 31st December	432	859	1,252	2,543
Of which:				
For advance to customers at amortised cost	431	855	1,061	2,347
For related accrued interest receivable	1	4	191	196
	432	859	1,252	2,543

	30/6/2019			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Debt investment securities				
Balance at 1st January	354	7	-	361
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	27	1	-	28
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	(70)	(2)	-	(72)
Balance at 30th June	311	6	-	317
Of which:				
For debt investment securities at amortised cost	74	2	-	76
For related accrued interest receivable	-	-	-	-
	74	2	-	76
For debt investment securities at FVOCI	235	4	-	239
For related accrued interest receivable	2	-	-	2
	237	4	-	241

	31/12/2018			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Debt investment securities				
Balance at 1st January	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	52	(2)	-	50
Write-offs	-	-	-	-
Changes in models	61	(1)	-	60
Net remeasurement of impairment allowances (including exchange adjustments)	(36)	(3)	-	(39)
Balance at 31st December	354	7	-	361
Of which:				
For debt investment securities at amortised cost	93	1	-	94
For related accrued interest receivable	1	-	-	1
	94	1	-	95
For debt investment securities at FVOCI	257	6	-	263
For related accrued interest receivable	3	-	-	3
	260	6	-	266

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

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

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

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

38. Off-balance Sheet Exposures

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

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

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, 2019 and 31st December, 2018.*

(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:

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Expenditure authorised and contracted for	316	284
Expenditure authorised but not contracted for	185	161
	501	445

(c) Contingencies

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

39. Material Related Party Transactions

(a) Key management personnel remuneration

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

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

(b) The Group maintains certain retirement benefit schemes for its staff. In the six months ended 30th June, 2019, the total amount of contributions the Group made to the schemes was HK$91 million (six months ended 30th June, 2018: HK$82 million).

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

The interest received from and interest paid to the Group's related parties for the six months ended 30th June, 2019, outstanding balances of amounts due from and due to them at 30th June, 2019 and maximum outstanding balance of amounts due from and due to them for the six months ended 30th June, 2019 are aggregated as follows:

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

40. Basis of Consolidation

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

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

41. Comparative Figures

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

42. Statement of Compliance

The Interim Report has been prepared in accordance with the applicable disclosure provisions of the Listing Rules and in compliance with HKAS 34, "Interim Financial Reporting", issued by the HKICPA. It was authorised for issue on 21st August, 2019.

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

43. Assets Held for Sale

On 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"). The disposal of Shenzhen Credit Gain was completed on 12th April, 2019. Up to the reporting date, the completion of the disposals of Chongqing Credit Gain and Chongqing Dongrong is still subject to the requisite Chinese regulatory approvals. Chongqing Credit Gain and Chongqing Dongrong's assets and liabilities as at 30th June, 2019 and Shenzhen Credit Gain, Chongqing Credit Gain and Chongqing Dongrong's assets and liabilities as at 31st December, 2018 are presented separately as assets held for sale and liabilities held for sale respectively in the consolidated financial statements.

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

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

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

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

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

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

	30/6/2019	30/6/2018
	HK$ Mn	HK$ Mn
Cumulative expense recognised in other comprehensive income	(41)	(43)

SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital Adequacy

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

	30/6/2019	31/12/2018
	%	%
Common Equity Tier 1 capital ratio	15.3	15.7
Tier 1 capital ratio	17.3	17.8
Total capital ratio	20.3	20.8

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

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

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

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

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

B. Leverage Ratio

	30/6/2019	31/12/2018 Restated
	HK$ Mn	HK$ Mn
Total Tier 1 capital	83,673	84,825
Exposure measure	895,940	862,745

	30/6/2019	31/12/2018
	%	%
Leverage ratio	9.3	9.8

The disclosure on leverage ratio has been effective since 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 .

C. Liquidity Position

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

The liquidity coverage ratio is calculated in accordance with the Banking (Liquidity) Rules effective from 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.

D. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

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

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

An asset considered as an eligible collateral should generally satisfy the following:
(a) The market value of the asset is readily determinable or can be reasonably established and verified;
(b) The asset is marketable and there exists a readily available secondary market for 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

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

(c) Other overdue and rescheduled assets

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

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

** Other assets refer to trade bills and receivables.*

(d) Repossessed assets

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

The amount represents the estimated market value of the repossessed assets as at 30th June, 2019 and 31st December, 2018.

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

E. Banking Disclosure Statement

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

INTERIM DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

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

FINANCIAL REVIEW

Financial Performance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Position

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

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

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

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

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

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

Appointment of Co-Chief Executives

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

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

BUSINESS REVIEW

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

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

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

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

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

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

Business – Hong Kong

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

Corporate & Commercial Banking

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

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

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

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

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

Retail Banking

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

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

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

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

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

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

Wealth Management

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

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

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

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

Insurance & MPF Services

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

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

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

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

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

Business – Mainland China

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

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

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

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

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

BEA's China banking operations continued to implement cost-control measures in the first half of 2019, while investments are being made to pave way for future growth. Operating expenses were HK$2,106 million for the six-month period, up by 32.2% year-on-year. The increase was mainly due to investments in new initiatives in connection with the retail business and platform fees paid to our internet partners. Excluding these development costs, operating expenses dropped by 4.4% year-on-year.

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

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

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

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

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

Business – International, Macau and Taiwan

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

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

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

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

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

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

BEA Union Investment Management Limited

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

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

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

Our People

As of 30th June, 2019, the BEA Group employed 9,879 people:

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

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

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

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

Future Prospects

Outlook

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

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

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

Expand customer base

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

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

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

Enhance customer experience

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

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

Retail transformation in China

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

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

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

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

Greater Bay Area

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

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

Cost Management

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

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

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

Asset quality

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

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

RISK MANAGEMENT

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

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

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

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

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

- The first line of defence comprises the Risk Owners, who are division / department heads at Head Office and heads of significant subsidiaries, together with staff under their management. They are primarily responsible for the day-to-day risk management of their units, including establishing and executing specific risk control mechanisms and detailed procedures.

- The second line of defence consists of the Risk Controllers, who are designated division / department heads at Head Office. Supported by their respective divisions and departments, the Risk Controllers are responsible for setting out a risk management governance framework, monitoring risks independently and supporting the management committees in their oversight of risk management.

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

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

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

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

(a) Credit risk management

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

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

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

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

(b) Market risk management

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

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

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

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

(i) *Currency risk*

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

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

(ii) *Interest rate risk*

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

(iii) *Equity risk*

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

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

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

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

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

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

Value-at-risk statistics

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

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

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

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

(c) Operational risk management

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

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

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

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

(d) Liquidity risk management

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

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

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

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

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

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

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

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

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

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

1. The Group utilises early warning indicators, which cover both qualitative and quantitative measures, and monitors both internal and external factors. Should there be any early signs of significant impact on the Group’s liquidity position, the Asset and Liability Management Committee is informed. The Asset and Liability Management Committee will consider appropriate remedial actions and will consider employing crisis management if the situation warrants.

2. A Crisis Management Committee, which is chaired by the Co-Chief Executives, is formed to handle the crisis. Strategy and procedures for obtaining contingency funding, as well as roles and responsibilities of the parties concerned, are clearly stated.

3. In the final stage, a post-crisis review is carried out to recommend necessary improvements to avoid incidents of a similar nature in the future.

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

Certificates of Deposit, Debt Securities Issued, and Loan Capital

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

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

Maturity Profile of Certificates of Deposit and Debt Securities Issued
As at 30th June, 2019
(All expressed in millions of dollars)

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

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

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

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

Maturity Profile of Loan Capital
As at 30th June, 2019
(All expressed in millions of dollars)

	Total Face Value	Year of Maturity 2020	2024	2026	2029
USD *(Notes 1 & 2)*	1,600	600	500	500	
CNY *(Note 3)*	1,500				1,500
Total Loan Capital issued in HKD equivalent	14,208	4,688	3,907	3,907	1,706

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

(e) Interest rate risk management

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

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

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

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

(f) Strategic risk management

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

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

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

(g) Legal risk management

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

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

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

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

(h) Reputation risk management

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

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

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

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

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

(i) Compliance risk management

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

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

(j) Technology risk management

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

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

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

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

(k) New product and business risk management

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

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

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

(l) Business continuity risk management

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

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

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

CORPORATE SOCIAL RESPONSIBILITY

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

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

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

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

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

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

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

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

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

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

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

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

RECOGNITION

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

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

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

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

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

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

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

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

For the BEA Union Investment Asian Bond and Currency Fund:

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

For the BEA Union Investment RMB Core Bond Fund:

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

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

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

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

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

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

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

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

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

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

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

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

COMPLIANCE WITH MODEL CODE

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

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

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

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

Hong Kong, 21st August, 2019

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

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

GLOSSARY
詞彙

AC 「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
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 ratio 往來賬戶及儲蓄賬戶
CG Code 「《企業管冶守則》」	Corporate Governance Code and Corporate Governance Report, Appendix 14 of the Listing Rules 《上市規則》附錄 14 內所載的《企業管冶守則》及《企業管冶報告》
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冶》
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）
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
ERM 「企業風險管理架構」	Enterprise Risk Management 企業風險管理架構
EUR 「歐元」或「歐羅」	Euro 歐元區法定貨幣
FVTPL	Fair value through profit or loss 通過損益以反映公平價值
FVOCI	Fair value through other comprehensive income 通過其他全面收益以反映公平價值
Fintech 「金融科技」	Financial technology 金融科技
GBP 「英鎊」	Pound sterling, the lawful currency of the UK 英國法定貨幣
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 Administration Region of PRC 中華人民共和國香港特別行政區
HQLA 「優質流動資產」	High-quality liquid asset 優質流動資產

IT 「資訊科技」	Information technology 資訊科技
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
Mn 「百萬」	Million 百萬
MPF 「強積金」	Mandatory Provident Fund 強制性公積金
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
SFO 「《證券及期貨條例》」	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) 《證券及期貨條例》（香港法例第 571 章）
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