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## 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 2021 INTERIM RESULTS

#### INTERIM RESULTS

The Board of Directors of the Bank is pleased to announce the unaudited results (Note 1(a)) of the Group for the six months ended 30<sup>th</sup> June, 2021.

#### Consolidated Income Statement

	Notes	6 months ended	6 months ended
		30/6/2021	30/6/2020
		HK\$ Mn	HK\$ Mn
Interest income	3	8,887	11,809
Interest income calculated using the effective interest method		9,403	11,928
Other interest expense		(516)	(119)
Interest expense	4	(3,364)	(5,695)
Net interest income		5,523	6,114
Fee and commission income	5	1,969	1,854
Fee and commission expense		(429)	(419)
Net fee and commission income		1,540	1,435
Net trading profit	6	561	453
Net result on financial instruments at FVTPL	7	173	(106)
Net result on financial assets measured at FVOCI	8	21	37
Net loss on sale of investments measured at amortised cost		(13)	-
Net hedging profit	9	64	36
Net insurance profit	10	371	268
Other operating income	11	175	237
Non-interest income		2,892	2,360
Operating income		8,415	8,474
Operating expenses	12	(4,647)	(4,350)
Operating profit before impairment losses		3,768	4,124
Impairment losses on financial instruments	13	(581)	(2,675)
Impairment losses on assets held for sale		-	(5)
Impairment losses on intangible assets		-	(2)
Impairment losses on associate	23	-	(220)
Impairment losses		(581)	(2,902)
Operating profit after impairment losses		3,187	1,222
Net profit on sale of assets held for sale	14	-	2
Net profit on disposal of subsidiaries/associates		-	341
Net loss on disposal of fixed assets	15	(22)	(11)
Valuation losses on investment properties	24	(123)	(130)
Share of profits less losses of associates and joint ventures		129	190
Profit for the period before taxation		3,171	1,614
Income tax	16	(474)	(56)
Profit for the period		2,697	1,558
Attributable to:			
Owners of the parent		2,671	1,532
Non-controlling interests		26	26
Profit for the period		2,697	1,558
Profit for the Bank		2,305	2,496
Earnings per share			
Basic	1(b)	HK\$0.78	HK\$0.39
Diluted	1(b)	HK\$0.78	HK\$0.39

## Consolidated Statement of Comprehensive Income

		6 months ended 30/6/2021	6 months ended 30/6/2020
	<i>Notes</i>	HK\$ Mn	HK\$ Mn
Net profit		2,697	1,558
Other comprehensive income for the period:			
Items that will not be reclassified to income statement:			
Premises:			
- unrealised surplus on revaluation of premises		4	-
- deferred taxes	32	5	1
Fair value reserve (equity instruments):			
- net change in fair value		(537)	(278)
- deferred taxes	32	(13)	6
Liability credit reserve:			
- net change in fair value attributable to Group's own credit risk		(7)	(11)
- deferred taxes	32	2	2
Items that may be reclassified subsequently to income statement:			
Fair value reserve (debt instruments):			
- net change in fair value		463	(1,480)
- amount transferred to income statement on disposal		(78)	(234)
- on amortisation		-	(1)
- deferred taxes	32	(163)	311
Hedging reserve (cash flow hedges):			
- effective portion of changes in fair value of hedging instruments		1	4
- fair value change transferred to income statement		(1)	(6)
Share of changes in equity of associates and joint ventures		(193)	(148)
Exchange differences arising from translation of accounts/disposal of overseas branches, subsidiaries, associates and joint ventures		266	(1,045)
Other comprehensive income		(251)	(2,879)
Total comprehensive income		2,446	(1,321)
Total comprehensive income attributable to:			
Owners of the parent		2,420	(1,347)
Non-controlling interests		26	26
		2,446	(1,321)

## Consolidated Statement of Financial Position

	Notes	30/6/2021 HK\$ Mn	31/12/2020 HK\$ Mn
<b>ASSETS</b>			
Cash and balances with banks	17	60,370	56,377
Placements with and advances to banks	18	50,728	66,849
Trade bills	19	11,464	11,793
Trading assets	20	4,126	1,190
Derivative assets	38(b)	5,231	8,059
Loans and advances to customers	21	530,833	509,070
Investment securities	22	141,205	144,171
Investments in associates and joint ventures	23	9,051	9,182
Fixed assets	24	13,768	14,065
- Investment properties		4,975	4,961
- Other properties and equipment		7,968	8,208
- Right-of-use assets		825	896
Goodwill and intangible assets		1,905	1,912
Deferred tax assets	32	1,950	2,022
Other assets	25	69,878	59,730
- Assets held for sale	43	30,630	26,657
- Others		39,248	33,073
Total Assets		900,509	884,420
<b>EQUITY AND LIABILITIES</b>			
Deposits and balances of banks		31,326	31,143
- Designated at fair value through profit or loss	26	3,146	5,442
- At amortised cost		28,180	25,701
Deposits from customers		598,588	589,202
- Demand deposits and current accounts		72,780	69,835
- Savings deposits		191,451	187,902
- Time, call and notice deposits		334,357	331,465
Trading liabilities	27	1	-
Derivative liabilities		8,116	13,016
Certificates of deposit issued		63,068	60,852
- Designated at fair value through profit or loss	26	29,925	24,494
- At amortised cost		33,143	36,358
Current taxation		861	624
Debt securities issued		5,404	5,057
- Designated at fair value through profit or loss	26	460	155
- At amortised cost		4,944	4,902
Deferred tax liabilities	32	649	460
Other liabilities	28	67,659	59,959
- Liabilities held for sale	43	28,281	26,864
- Others		39,378	33,095
Loan capital – at amortised cost	29	10,331	10,311
Total Liabilities		786,003	770,624
Share capital	1(d)	41,599	41,557
Reserves	33	58,652	57,328
Total equity attributable to owners of the parent		100,251	98,885
Additional equity instruments	34	13,968	13,968
Non-controlling interests		287	943
Total Equity		114,506	113,796
Total Equity and Liabilities		900,509	884,420

## Consolidated Statement of Changes in Equity

	Share capital	General reserve	Revaluation reserve of bank premises	Capital reserve	Exchange revaluation reserve	Capital reserve – staff share options issued	Fair value reserve	Hedging reserve	Liability credit reserve	Other reserves <sup>Note</sup>	Retained profits	Total	Additional equity instruments	Non-controlling interests	Total equity
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1 <sup>st</sup> January, 2021	41,557	13,657	1,895	895	301	157	2,465	-	(32)	5,138	32,852	98,885	13,968	943	113,796
Changes in equity															
Profit for the period	-	-	-	-	-	-	-	-	-	-	2,671	2,671	-	26	2,697
Other comprehensive income	-	-	9	-	266	-	(328)	-	(5)	(193)	-	(251)	-	-	(251)
Total comprehensive income	-	-	9	-	266	-	(328)	-	(5)	(193)	2,671	2,420	-	26	2,446
Shares issued in lieu of dividend (Note 1(d))	42	-	-	-	-	-	-	-	-	-	-	42	-	-	42
Equity settled share-based transaction	-	-	-	-	-	9	-	-	-	-	-	9	-	-	9
Transfer	-	-	-	-	-	(24)	-	-	-	208	(184)	-	-	-	-
Distribution/Dividends declared or approved during the period	-	-	-	-	-	-	-	-	-	-	(1,105)	(1,105)	-	(52)	(1,157)
Change of ownership in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(630)	(630)
At 30 <sup>th</sup> June, 2021	41,599	13,657	1,904	895	567	142	2,137	-	(37)	5,153	34,234	100,251	13,968	287	114,506
At 1 <sup>st</sup> January, 2020	41,379	13,651	1,848	1,090	(1,629)	163	2,331	1	(7)	5,347	31,133	95,307	13,963	368	109,638
Changes in equity															
Profit for the period	-	-	-	-	-	-	-	-	-	-	1,532	1,532	-	26	1,558
Other comprehensive income	-	-	1	-	(1,045)	-	(1,676)	(2)	(9)	(148)	-	(2,879)	-	-	(2,879)
Total comprehensive income	-	-	1	-	(1,045)	-	(1,676)	(2)	(9)	(148)	1,532	(1,347)	-	26	(1,321)
Shares issued in lieu of dividend	149	-	-	-	-	-	-	-	-	-	-	149	-	-	149
Equity settled share-based transaction	-	-	-	-	-	2	-	-	-	-	-	2	-	-	2
Transfer	-	-	-	(196)	-	(17)	-	-	-	(84)	297	-	-	-	-
Distribution/Dividends declared or approved during the period	-	-	-	-	-	-	-	-	-	-	(1,414)	(1,414)	-	(53)	(1,467)
Change of ownership in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(3)	(3)
At 30 <sup>th</sup> June, 2020	41,528	13,651	1,849	894	(2,674)	148	655	(1)	(16)	5,115	31,548	92,697	13,963	338	106,998

Note: Other reserves include statutory reserve and other reserves.

## Condensed Consolidated Cash Flow Statement

	6 months ended 30/6/2021	6 months ended 30/6/2020
Notes	HK\$ Mn	HK\$ Mn
NET CASH OUTFLOW FROM OPERATIONS	(13,894)	(2,041)
Income tax paid		
Hong Kong profits tax paid	(16)	(738)
Outside Hong Kong profits tax paid	(105)	(183)
NET CASH USED IN OPERATING ACTIVITIES	<u>(14,015)</u>	<u>(2,962)</u>
INVESTING ACTIVITIES		
Dividends received from equity securities measured at FVOCI	6	4
Purchase of fixed assets	(174)	(175)
Proceeds from disposal of other properties and equipment	3	1
Proceeds from sale of assets held for sale	-	8
Proceeds from disposal of associates	-	906
Returns of investment in associates	3	-
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	<u>(162)</u>	<u>744</u>
FINANCING ACTIVITIES		
Ordinary dividends paid	(710)	(921)
Distribution to Additional Tier 1 issue holders	(405)	(397)
Issue of debt securities	314	1,393
Issue of loan capital	-	4,617
Payment of lease liabilities	(199)	(215)
Redemption of debt securities issued	(4)	(155)
Interest paid on loan capital	(236)	(269)
Interest paid on debt securities issued	(117)	(113)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	<u>(1,357)</u>	<u>3,940</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<u>(15,534)</u>	<u>1,722</u>
CASH AND CASH EQUIVALENTS AT 1 <sup>ST</sup> JANUARY	113,702	94,638
Effect of foreign exchange rate changes	479	(1,212)
CASH AND CASH EQUIVALENTS AT 30 <sup>TH</sup> JUNE	<u>98,647</u>	<u>95,148</u>
	35	
Cash flows from operating activities included:		
Interest received	8,961	12,067
Interest paid	3,648	7,006
Dividend received	17	15

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 2020 audited accounts, except for the accounting policy changes required under new HKFRSs and amendments that are first effective for the current accounting period as described in note 2 below, or otherwise explicitly stated, and has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA, whose unmodified review report is included in the interim report which will be published on the websites of the HKEX and the Bank, together with the disclosures required by the Banking (Disclosure) Rules issued by the HKMA.

The financial information relating to the financial year ended 31<sup>st</sup> December, 2020 that is included in the interim financial report as comparative information does not constitute the Bank's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31<sup>st</sup> December, 2020 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\$2,266 million (six months ended 30<sup>th</sup> June, 2020: HK\$1,135 million) after accounting for the distribution of HK\$405 million (six months ended 30<sup>th</sup> June, 2020: HK\$397 million) to Additional Tier 1 issue holders, and on the weighted average of 2,918 million ordinary shares outstanding during the six months ended 30<sup>th</sup> June, 2021 (six months ended 30<sup>th</sup> June, 2020: 2,911 million).
- (ii) The calculation of diluted earnings per share is based on the consolidated profit for the period attributable to owners of the parent of HK\$2,266 million (six months ended 30<sup>th</sup> June, 2020: HK\$1,135 million) after accounting for the distribution of HK\$405 million (six months ended 30<sup>th</sup> June, 2020: HK\$397 million) to Additional Tier 1 issue holders, and on the weighted average of 2,918 million ordinary shares outstanding during the six months ended 30<sup>th</sup> June, 2021 (six months ended 30<sup>th</sup> June, 2020: 2,911 million), adjusted for the effects of all dilutive potential shares.

(c) Distribution/Dividends

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

	6 months ended 30/6/2021	6 months ended 30/6/2020
	HK\$ Mn	HK\$ Mn
Interim dividend declared after the interim period of HK\$0.35 per share on 2,919 million shares (six months ended 30 <sup>th</sup> June, 2020: HK\$0.16 per share on 2,915 million shares)	<u>1,022</u>	<u>466</u>

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

1. (c) Distribution/Dividends (Continued)

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

	6 months ended 30/6/2021	6 months ended 30/6/2020
	HK\$ Mn	HK\$ Mn
Second interim dividend of HK\$0.24 per share on 2,917 million shares (2020: HK\$0.35 per share on 2,907 million shares)	<u>700</u>	<u>1,017</u>

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

	6 months ended 30/6/2021	6 months ended 30/6/2020
	HK\$ Mn	HK\$ Mn
Distribution paid on the Additional Tier 1 capital instruments	<u>405</u>	<u>397</u>

(d) Share Capital

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

	<u>At 30<sup>th</sup> June, 2021</u>		<u>At 31<sup>st</sup> December, 2020</u>	
	<u>No. of shares</u>		<u>No. of shares</u>	
	Million	HK\$ Mn	Million	HK\$ Mn
Ordinary shares, issued and fully paid:				
At 1st January	2,917	41,557	2,907	41,379
Share issued in lieu of dividend	<u>2</u>	<u>42</u>	<u>10</u>	<u>178</u>
At 30 <sup>th</sup> June/31 <sup>st</sup> December	<u>2,919</u>	<u>41,599</u>	<u>2,917</u>	<u>41,557</u>

## 2. Changes in Accounting Policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31<sup>st</sup> December, 2020.

The change in accounting policy are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31<sup>st</sup> December 2021.

The Group has initially adopted Interest Rate Benchmark Reform – Phase 2 Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 (*the "Phase 2 amendments"*) from 1<sup>st</sup> January, 2021.

The Group applied the Phase 2 amendments retrospectively. In accordance with the options permitted in the Phase 2 amendments, the Group has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosures for 2020.

There is no impact on opening equity balances as a result of retrospective application given that the relevant modifications to financial contracts would only be required after 2020.

The Phase 2 amendments provide practical relief from certain requirements in HKFRSs. This relief relates to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

The Group updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the interest rate benchmark reform if the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis, i.e. the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Group first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. Subsequently, the Group applies the policies on accounting for modifications set out above to the additional changes.

The Phase 2 amendments allow the Group to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform.

The Phase 2 amendments also provide a series of temporary exemptions from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument that permit the hedging relationship to be continued without interruption. The Group applies the following relief as and when uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument:

- the Group amends the designation of a hedging relationship to reflect changes that are required by the reform without discontinuing the hedging relationship; and
- when a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

While uncertainty persists in the timing or amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument, the Group continues to apply the existing accounting policies.

### 3. Interest Income

	6 months ended 30/6/2021	6 months ended 30/6/2020
	HK\$ Mn	HK\$ Mn
Loans, deposits with banks, and trade bills	7,635	9,962
Investment securities		
- measured at amortised cost or FVOCI	1,169	1,724
- designated at FVTPL	-	23
- mandatory at FVTPL	57	86
Trading assets	26	14
	<u>8,887</u>	<u>11,809</u>

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

The above included HK\$9,403 million (six months ended 30<sup>th</sup> June, 2020: HK\$11,928 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 30/6/2021	6 months ended 30/6/2020
	HK\$ Mn	HK\$ Mn
Customer deposits and deposits of banks		
- at amortised cost	2,721	4,582
- designated at FVTPL	6	27
Certificates of deposit and debt securities issued		
- at amortised cost	327	592
- designated at FVTPL	96	226
Subordinated notes carried at amortised cost	197	248
Lease liabilities	15	18
Other borrowings	2	2
	<u>3,364</u>	<u>5,695</u>

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

The above included HK\$3,285 million (six months ended 30<sup>th</sup> June, 2020: HK\$5,476 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 30/6/2021 HK\$ Mn	6 months ended 30/6/2020 HK\$ Mn
Loans, overdrafts and guarantees	397	381
Credit cards	391	485
Investment products	246	222
Securities brokerage	231	167
Trust and other fiduciary activities	150	139
Trade finance	118	137
Other retail banking services	86	81
Sale of third party insurance policies	83	26
Financial consultancy	1	11
Others	266	205
Total fee and commission income	<u>1,969</u>	<u>1,854</u>

of which:

Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not measured at FVTPL

	1,549	1,442
Fee income	<u>1,969</u>	<u>1,854</u>
Fee expenses	<u>(420)</u>	<u>(412)</u>

## 6. Net Trading Profit

	6 months ended 30/6/2021 HK\$ Mn	6 months ended 30/6/2020 HK\$ Mn
Profit on dealing in foreign currencies and funding swaps	239	223
Profit/(Loss) on trading securities	82	(42)
Net gain on derivatives	229	262
Loss on other dealing activities	(1)	(1)
Dividend income from trading equity securities	12	11
	<u>561</u>	<u>453</u>

## 7. Net Result on Financial Instruments at FVTPL

	6 months ended 30/6/2021 HK\$ Mn	6 months ended 30/6/2020 HK\$ Mn
Net profit/(loss) from financial instruments designated at FVTPL	16	(88)
Net profit/(loss) from financial instruments mandatorily measured at FVTPL (other than those included in net trading profits)	157	(18)
	<u>173</u>	<u>(106)</u>

**8. Net Result on Financial Assets Measured at FVOCI**

	6 months ended 30/6/2021	6 months ended 30/6/2020
	HK\$ Mn	HK\$ Mn
Net profit on sale of debt securities	15	33
Dividend income from equity securities	6	4
	<u>21</u>	<u>37</u>

**9. Net Hedging Profit**

	6 months ended 30/6/2021	6 months ended 30/6/2020
	HK\$ Mn	HK\$ Mn
Fair value hedges		
- Net (loss)/profit on hedged items attributable to the hedged risk	(1,655)	3,067
- Net profit/(loss) on hedging instruments	1,719	(3,031)
	<u>64</u>	<u>36</u>

There was insignificant ineffectiveness recognised in the Group's income statement arising from cash flow hedge for the six months ended 30<sup>th</sup> June, 2021 and 30<sup>th</sup> June, 2020.

## 10. Net Insurance Profit

	6 months ended 30/6/2021 HK\$ Mn	6 months ended 30/6/2020 HK\$ Mn
(a) Net insurance profit		
Net interest income	352	326
Net trading profit/(loss)	29	(80)
Net result on financial instruments at FVTPL	159	(161)
Net profit on sale of debt investment securities measured at FVOCI	56	226
Net insurance premium	(b) <u>3,550</u>	<u>4,140</u>
	4,146	4,451
Net insurance claims and expenses	(c) <u>(3,752)</u>	<u>(4,155)</u>
	394	296
Operating expenses	(2)	(1)
Impairment losses on financial instruments	(21)	(27)
	<u>371</u>	<u>268</u>
(b) Net insurance premium		
Gross insurance premium income ( <i>Note</i> )	3,586	4,172
Reinsurer's share of gross insurance premium income	(36)	(32)
	<u>3,550</u>	<u>4,140</u>
(c) Net insurance claims and expenses		
Claims, benefits and surrenders paid	3,263	1,478
Movement in provisions	445	2,625
	<u>3,708</u>	<u>4,103</u>
Reinsurers' share of claim, benefits and surrenders paid	(17)	(36)
Reinsurers' share of movement in provisions	(3)	12
	<u>(20)</u>	<u>(24)</u>
	3,688	4,079
Net insurance commission expenses	64	76
	<u>3,752</u>	<u>4,155</u>

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

## 11. Other Operating Income

	6 months ended 30/6/2021 HK\$ Mn	6 months ended 30/6/2020 HK\$ Mn
Rental from safe deposit boxes	61	61
Rental income on properties	76	80
Government subsidy – Employment Support Scheme	-	42
Others	38	54
	<u>175</u>	<u>237</u>

## 12. Operating Expenses

	6 months ended 30/6/2021	6 months ended 30/6/2020 Restated <i>(Note)</i>
	HK\$ Mn	HK\$ Mn
Contributions to defined contribution plan		
- Hong Kong	93	94
- Outside Hong Kong	116	54
Equity settled share-based payment expenses	9	2
Salaries and other staff costs	2,547	2,292
Total staff costs	<u>2,765</u>	<u>2,442</u>
Premises and equipment expenses excluding depreciation		
- Expenses relating to short-term leases	10	8
- Variable lease payments not included in the measurement of lease liabilities *	3	-
- Maintenance, repairs and others	373	362
Total premises and equipment expenses excluding depreciation	<u>386</u>	<u>370</u>
Depreciation on		
- Bank premises, furniture, fixtures and office equipment	290	274
- Right-of-use assets	195	218
	<u>485</u>	<u>492</u>
Amortisation of intangible assets	<u>7</u>	<u>7</u>
Other operating expenses		
- Internet platform charges	259	291
- Legal and professional fees	163	178
- Communications, stationery and printing	129	130
- Advertising expenses	95	89
- Insurance expenses	66	65
- Card related expenses	64	73
- Stamp duty, withholding taxes and value added taxes	41	49
- Business promotions and business travel	24	24
- Others	163	140
Total other operating expenses	<u>1,004</u>	<u>1,039</u>
Total operating expenses	<u>4,647</u>	<u>4,350</u>

*Note: Certain other operating expenses of HK\$40 million for the six months ended 30<sup>th</sup> June, 2020 has been reclassified from legal and professional expense to maintenance, repairs and others in line with the nature of the expenses.*

*\* Included a credit of HK\$1 million (six months ended 30<sup>th</sup> June, 2020: HK\$2 million) of COVID-19-related rent concessions during the period.*

## 13. Impairment Losses on Financial Instruments

	6 months ended 30/6/2021	6 months ended 30/6/2020
	HK\$ Mn	HK\$ Mn
Loans and advances to customers	552	2,552
Others	29	123
	<u>581</u>	<u>2,675</u>

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

	6 months ended 30/6/2021 HK\$ Mn	6 months ended 30/6/2020 HK\$ Mn
Net profit on sale of disposal group	-	2

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

	6 months ended 30/6/2021 HK\$ Mn	6 months ended 30/6/2020 HK\$ Mn
Net loss on disposal of bank premises, furniture, fixtures and equipment	(22)	(11)

#### 16. Income Tax

Taxation in the consolidated income statement represents:

	6 months ended 30/6/2021 HK\$ Mn	6 months ended 30/6/2020 HK\$ Mn
Current tax – Hong Kong		
Tax for the year	286	332
Over-provision in respect of prior years	(60)	(139)
	<u>226</u>	<u>193</u>
Current tax – outside Hong Kong		
Tax for the year	128	156
Over-provision in respect of prior years	(5)	(2)
	<u>123</u>	<u>154</u>
Deferred tax		
Origination and reversal of temporary differences	125	(291)
	<u>474</u>	<u>56</u>

The provision for Hong Kong profits tax is calculated at 16.5% (six months ended 30<sup>th</sup> June, 2020: 16.5%) of the estimated assessable profits for the six months ended 30<sup>th</sup> June, 2021.

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

	<u>30/6/2021</u>	<u>31/12/2020</u>
	HK\$ Mn	HK\$ Mn
Cash in hand	1,064	1,140
Balances with central banks	41,711	33,506
Balances with other banks	17,625	21,750
	<u>60,400</u>	<u>56,396</u>
Less: Impairment allowances	(30)	(19)
- Stage 1	(30)	(19)
- Stage 2	-	-
- Stage 3	-	-
	<u>60,370</u>	<u>56,377</u>

## 18. Placements with and Advances to Banks

	<u>30/6/2021</u>	<u>31/12/2020</u>
	HK\$ Mn	HK\$ Mn
Placements with and advances to banks		
Maturing		
- within one month	47,990	64,380
- after one month but within one year	2,739	2,472
- after one year	-	-
	<u>50,729</u>	<u>66,852</u>
Less: Impairment allowances	(1)	(3)
- Stage 1	(1)	(3)
- Stage 2	-	-
- Stage 3	-	-
	<u>50,728</u>	<u>66,849</u>
Of which:		
Placements with and advances to central banks	-	-

## 19. Trade Bills

	<u>30/6/2021</u>	<u>31/12/2020</u>
	HK\$ Mn	HK\$ Mn
Measured at amortised cost	758	372
Less: Impairment allowances	(1)	(3)
- Stage 1	(1)	(3)
- Stage 2	-	-
- Stage 3	-	-
	<u>757</u>	<u>369</u>
Measured at FVOCI	10,707	11,424
	<u>11,464</u>	<u>11,793</u>

**20. Trading Assets**

	<u>30/6/2021</u>	<u>31/12/2020</u>
	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	-	119
Certificates of deposits held	1,775	-
Debt securities	1,275	190
Equity securities	1,076	881
	<u>4,126</u>	<u>1,190</u>

**21. Loans and Advances to Customers**

## (a) Loans and advances to customers

	<u>30/6/2021</u>	<u>31/12/2020</u>
	HK\$ Mn	HK\$ Mn
Loans and advances to customers at amortised cost	535,112	513,929
Less: Impairment allowances	(4,279)	(4,859)
- Stage 1	(850)	(845)
- Stage 2	(620)	(1,038)
- Stage 3	(2,809)	(2,976)
	<u>530,833</u>	<u>509,070</u>

## 21. Loans and Advances to Customers (Continued)

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

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

	30/6/2021		31/12/2020	
	Gross advances HK\$ Mn	% of gross advances covered by collateral %	Gross advances HK\$ Mn	% of gross advances covered by collateral %
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	28,258	53.50	29,038	59.33
- Property investment	48,174	88.29	49,544	89.17
- Financial concerns	12,994	52.68	13,434	55.49
- Stockbrokers	5,860	94.37	4,468	94.34
- Wholesale and retail trade	5,878	47.66	6,273	52.78
- Manufacturing	3,935	44.49	4,390	47.24
- Transport and transport equipment	4,957	54.68	5,441	56.21
- Recreational activities	73	65.08	82	70.40
- Information technology	1,210	1.64	676	5.20
- Others	21,392	53.02	19,151	56.85
- Sub-total	<u>132,731</u>	66.83	<u>132,497</u>	69.81
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,338	100.00	1,383	100.00
- Loans for the purchase of other residential properties	86,688	100.00	87,512	100.00
- Credit card advances	4,228	0.00	4,043	0.00
- Others	27,216	85.20	27,730	85.01
- Sub-total	<u>119,470</u>	93.09	<u>120,668</u>	93.20
Total loans for use in Hong Kong	252,201	79.27	253,165	80.96
Trade finance	6,636	39.29	4,427	49.24
Loans for use outside Hong Kong (Note)	<u>276,275</u>	36.20	<u>256,337</u>	37.78
Total advances to customers	<u>535,112</u>	56.54	<u>513,929</u>	59.15

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

## 21. Loans and Advances to Customers (Continued)

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

	30/6/2021		31/12/2020	
	Gross advances HK\$ Mn	% of gross advances covered by collateral %	Gross advances HK\$ Mn	% of gross advances covered by collateral %
Loans for use in Mainland China				
Industrial, commercial and financial				
- Property development	49,708	35.66	41,344	29.81
- Property investment	11,976	78.15	13,254	81.47
- Financial concerns	45,157	0.51	41,107	3.84
- Wholesale and retail trade	9,520	15.30	6,644	40.81
- Manufacturing	8,896	5.05	5,870	12.28
- Transport and transport equipment	619	49.52	584	38.04
- Recreational activities	36	0.00	71	58.14
- Information technology	1,727	0.53	1,601	0.70
- Others	15,134	16.67	13,997	19.62
- Sub-total	<u>142,773</u>	22.46	<u>124,472</u>	25.03
Individuals				
- Loans for the purchase of other residential properties	15,001	100.00	14,180	99.98
- Credit card advances	6,525	0.00	7,072	0.00
- Others	12,926	1.83	14,910	1.84
- Sub-total	<u>34,452</u>	44.23	<u>36,162</u>	39.96
Total loans for use in Mainland China	<u>177,225</u>	26.69	<u>160,634</u>	28.39

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

	30/6/2021 HK\$ Mn	31/12/2020 HK\$ Mn
(i) Property development		
a. Individually impaired loans	397	642
b. Specific provisions	126	216
c. Collective provisions	58	88
d. New provision charged to income statement	29	324
e. Written off	87	284
(ii) Property investment		
a. Individually impaired loans	2,711	2,298
b. Specific provisions	1,061	702
c. Collective provisions	158	319
d. New provision charged to income statement	358	1,079
e. Written off	-	666
(iii) Loans for purchase of residential properties		
a. Individually impaired loans	272	273
b. Specific provisions	9	13
c. Collective provisions	65	153
d. New provision charged to income statement	66	200
e. Written off	-	-

## 21. Loans and Advances to Customers (Continued)

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

	<u>30/6/2021</u>	<u>31/12/2020</u>
	HK\$ Mn	HK\$ Mn
(iv) Financial concerns		
a. Individually impaired loans	-	-
b. Specific provisions	-	-
c. Collective provisions	228	303
d. New provision charged to income statement	47	250
e. Written off	-	-

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 30 which is prepared in a manner consistent with the way in which information is reported internally to the Group's Senior Management. 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.

	<u>30/6/2021</u>				
	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	263,186	377	1,225	416	179
Mainland China	194,965	2,068	5,012	2,262	946
Other Asian Countries and Regions	31,347	74	214	131	111
Others	45,614	7	7	-	234
<b>Total</b>	<b>535,112</b>	<b>2,526</b>	<b>6,458</b>	<b>2,809</b>	<b>1,470</b>
% of total advances to customers			<u>1.21%</u>		
Market value of collateral held against impaired advances to customers			<u>4,462</u>		

## 21. Loans and Advances to Customers (Continued)

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

	31/12/2020				
	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	262,280	863	1,225	447	423
Mainland China	178,085	1,856	4,992	2,353	1,179
Other Asian Countries and Regions	29,483	80	234	174	55
Others	44,081	14	14	2	226
<b>Total</b>	<b>513,929</b>	<b>2,813</b>	<b>6,465</b>	<b>2,976</b>	<b>1,883</b>
% of total advances to customers			1.26%		
Market value of collateral held against impaired advances to customers			4,801		

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

	30/06/2021			
	Mandatorily measured at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	-	18,769	2,247	21,016
Certificates of deposits held	-	966	780	1,746
Debt securities	4,294	97,364	14,447	116,105
Equity securities	560	746	-	1,306
Investment funds	1,032	-	-	1,032
	<u>5,886</u>	<u>117,845</u>	<u>17,474</u>	<u>141,205</u>

	31/12/2020			
	Mandatorily measured at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	-	25,828	2,359	28,187
Certificates of deposits held	-	1,175	1,065	2,240
Debt securities	4,571	94,325	12,297	111,193
Equity securities	482	1,283	-	1,765
Investment funds	786	-	-	786
	<u>5,839</u>	<u>122,611</u>	<u>15,721</u>	<u>144,171</u>

### Equity securities designated at FVOCI

	30/6/2021		31/12/2020	
	Fair value	Dividend income recognised	Fair value	Dividend income recognised
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Equity investments held for long-term strategic purposes	<u>746</u>	<u>6</u>	<u>1,283</u>	<u>13</u>

## 23. Investments in Associates and Joint Ventures

	30/6/2021 HK\$ Mn	31/12/2020 HK\$ Mn
Share of net assets	9,377	9,504
Goodwill	473	477
	<u>9,850</u>	<u>9,981</u>
Less: Impairment allowances	<u>(799)</u>	<u>(799)</u>
	<u>9,051</u>	<u>9,182</u>

At 30<sup>th</sup> June, 2021, the fair value of the Group's investment in AFFIN Bank Berhad ("AFFIN") based on the quoted market price had been persistently below the carrying amount for a period of time. As a result, the Group performed an impairment test on the investment using a value-in-use ("VIU") methodology and this demonstrated that the recoverable amount of the investment was HK\$3,396 million. The recoverable amount was higher than the carrying value of HK\$3,364 million and no further impairment charge was recognised (six months ended 30<sup>th</sup> June, 2020: impairment charge of HK\$220 million). The VIU calculation uses discounted cash flow projections based on AFFIN's latest forecast of financial results and estimates made by the Group's management for the next five years and extrapolating in perpetuity using a long-term growth rate of 3% to derive a terminal value. Discount rate of 11% (2020: 11%), which is based on a Capital Asset Pricing Model calculation for AFFIN, is used in the VIU calculation.

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

	Favourable change		Unfavourable change			
	Increase in VIU	VIU		Decrease in VIU	VIU	
	HK\$ Mn	HK\$ Mn		HK\$ Mn	HK\$ Mn	
At 30 <sup>th</sup> June, 2021						
Discount rate	-50 bps	220	3,616	+50 bps	(194)	3,202
Long-term growth rate	+50 bps	52	3,448	-50 bps	(45)	3,351
Expected cash flows	+10%	340	3,736	-10%	(339)	3,057

## 24. Fixed Assets

30/6/2021

	Investment properties	Bank premises	Furniture, fixtures and equipment	Sub-total	Right-of-use assets – Bank premises	Right-of-use assets - Furniture, fixtures and equipment	Sub-total	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Cost or valuation								
At 1 <sup>st</sup> January, 2021	4,961	8,595	6,311	14,906	1,549	26	1,575	21,442
Additions	-	2	172	174	120	1	121	295
Revaluation deficit	(123)	-	-	-	-	-	-	(123)
Disposals	-	(14)	(148)	(162)	-	-	-	(162)
Revaluation surplus on bank premises upon transfer to investment properties	-	4	-	4	-	-	-	4
Transfer from bank premises to investment properties	137	(137)	-	(137)	-	-	-	-
Expiry/termination of lease contracts	-	-	-	-	(118)	(1)	(119)	(119)
Less: Elimination of accumulated depreciation on revalued bank premises	-	(2)	-	(2)	-	-	-	(2)
Transfer to asset classified as assets held for sale	-	-	(3)	(3)	-	-	-	(3)
Exchange adjustments	-	44	27	71	9	-	9	80
At 30 <sup>th</sup> June, 2021	4,975	8,492	6,359	14,851	1,560	26	1,586	21,412
Accumulated depreciation and amortisation								
At 1 <sup>st</sup> January, 2021	-	2,254	4,444	6,698	670	9	679	7,377
Charge for the period	-	77	213	290	192	3	195	485
Expiry/termination of lease contracts	-	-	-	-	(115)	(1)	(116)	(116)
Elimination of accumulated depreciation on revalued bank premises	-	(2)	-	(2)	-	-	-	(2)
Written off on disposal	-	(9)	(128)	(137)	-	-	-	(137)
Exchange adjustments	-	17	17	34	3	-	3	37
At 30 <sup>th</sup> June, 2021	-	2,337	4,546	6,883	750	11	761	7,644
Net book value at 30 <sup>th</sup> June, 2021	4,975	6,155	1,813	7,968	810	15	825	13,768
Net book value at 31 <sup>st</sup> December, 2020	4,961	6,341	1,867	8,208	879	17	896	14,065
The gross amounts of the above assets are stated:								
At cost	-	7,744	6,359	14,103	1,560	26	1,586	15,689
At Directors' valuation - 1989	-	748	-	748	-	-	-	748
At professional valuation - 2021	4,975	-	-	-	-	-	-	4,975
	4,975	8,492	6,359	14,851	1,560	26	1,586	21,412

## 25. Other Assets

	<u>30/6/2021</u> HK\$ Mn	<u>31/12/2020</u> HK\$ Mn
Accrued interest	2,414	2,488
Customer liabilities under acceptances	24,529	17,333
Other accounts ( <i>Note</i> )	12,506	13,437
Less: Impairment allowances	(201)	(185)
- Stage 1	(12)	(14)
- Stage 2	(3)	(3)
- Stage 3	(186)	(168)
	<u>39,248</u>	<u>33,073</u>
Assets held for sale ( <i>Note 43</i> )	<u>30,630</u>	<u>26,657</u>
	<u>69,878</u>	<u>59,730</u>

*Note: Include nil contract assets (31/12/2020: nil) from contracts with customers under HKFRS 15.*

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

	<u>30/6/2021</u> HK\$ Mn	<u>31/12/2020</u> HK\$ Mn
Deposits and balances of banks	3,146	5,442
Certificates of deposits issued	29,925	24,494
Debt securities issued	460	155
	<u>33,531</u>	<u>30,091</u>

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

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

	<u>30/6/2021</u> HK\$ Mn	<u>31/12/2020</u> HK\$ Mn
Balance at 1 <sup>st</sup> January	(32)	(7)
Recognised in other comprehensive income during the period	(7)	(29)
Deferred tax	2	4
Balance at 30 <sup>th</sup> June/31 <sup>st</sup> December	<u>(37)</u>	<u>(32)</u>

There was no transfer of cumulative gain or loss within equity due to de-recognition of liabilities designated at FVTPL during first half of 2021 (31/12/2020: Nil).

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

The carrying amount of financial liabilities designated as at FVTPL at 30<sup>th</sup> June, 2021 was HK\$8 million higher than the contractual amount due at maturity (31/12/2020: HK\$2 million lower).

## 27. Trading Liabilities

	30/6/2021	31/12/2020
	HK\$ Mn	HK\$ Mn
Shares sold	1	-

## 28. Other Liabilities

	30/6/2021	31/12/2020
	HK\$ Mn	HK\$ Mn
Accrued interest payable	1,568	1,852
Acceptance draft payable	24,529	17,333
Impairment allowances on financial guarantee contracts issued and loan commitments issued	64	72
- Stage 1	43	52
- Stage 2	21	18
- Stage 3	-	2
Liabilities held for sale (Note 43)	28,281	26,864
Lease liabilities	873	936
Other accounts (Note)	12,344	12,902
	<u>67,659</u>	<u>59,959</u>

Note: Include contract liabilities of HK\$605 million (31/12/2020: HK\$612 million) from contracts with customers under HKFRS 15.

## 29. Loan Capital

	30/6/2021	31/12/2020
	HK\$ Mn	HK\$ Mn
Subordinated notes, at amortised cost with fair value hedge adjustments		
USD500 million fixed rate subordinated notes due 3 <sup>rd</sup> November, 2026 (1)	3,897	3,911
Subordinated notes, at amortised cost without hedging		
RMB1,500 million fixed rate subordinated notes due 25 <sup>th</sup> April, 2029 (2)	1,801	1,778
USD600 million fixed rate subordinated notes due 29 <sup>th</sup> May, 2030 (3)	4,633	4,622
	<u>10,331</u>	<u>10,311</u>

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities during the period/year ended 30<sup>th</sup> June, 2021 and 31<sup>st</sup> December, 2020.

- (1) Loan capital of face value of HK\$3,882 million (USD500 million) and carrying amount of HK\$3,897 million (31/12/2020: HK\$3,911 million) represents subordinated notes (under the Euro Medium Term Note Programme) carrying a coupon rate of 4% p.a. qualifying as Tier 2 capital issued on 3<sup>rd</sup> November, 2016 by the Bank. The notes are listed on the Hong Kong Stock Exchange and with maturity on 3<sup>rd</sup> November, 2026 and callable on 3<sup>rd</sup> November, 2021. The notes are under fair value hedge accounting and hedge ineffectiveness of HK\$1 million loss was recorded in first half of 2021 (first half of 2020: HK\$1 million loss).

## 29. Loan Capital (Continued)

- (2) Loan capital of face value of HK\$1,803 million (RMB1,500 million) and carrying amount of HK\$1,801 million (31/12/2020: HK\$1,778 million) represents subordinated notes carrying a coupon of 4.94% p.a. issued on 25<sup>th</sup> April, 2019 by the Bank's subsidiary, The Bank of East Asia (China) Limited. The notes are with maturity on 25<sup>th</sup> April, 2029 and callable on 25<sup>th</sup> April, 2024.
- (3) Loan capital of face value of HK\$4,659 million (USD600 million) and carrying amount of HK\$4,633 million (31/12/2020: HK\$4,622 million) represents subordinated notes carrying a coupon of 4% p.a. qualifying as Tier 2 capital and meeting the loss-absorbing capacity requirements issued on 29<sup>th</sup> May, 2020 by the Bank. The notes are listed on the Hong Kong Stock Exchange and with maturity on 29<sup>th</sup> May, 2030 and callable on 29<sup>th</sup> May, 2025.

## 30. Segment Reporting

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

### *Hong Kong operations*

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

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

### *Mainland operations*

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

### *Overseas operations*

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

### 30. Segment Reporting (Continued)

#### *Corporate management*

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

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

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

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

### 30. Segment Reporting (Continued)

	Hong Kong operations												
	Hong Kong banking business						Others	Total	Mainland China operations	Overseas operations	Corporate management	Inter- segment elimination	Total
	Personal banking	Corporate banking	Treasury markets	Wealth management	Centralised operations	Total							
<b>6 months ended 30<sup>th</sup> June, 2021</b>	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
Net interest income/(expense)	1,130	1,177	60	162	(10)	2,519	56	2,575	1,962	828	158	-	5,523
Non-interest income	565	326	393	255	179	1,718	625	2,343	451	117	-	(19)	2,892
Operating income	1,695	1,503	453	417	169	4,237	681	4,918	2,413	945	158	(19)	8,415
Operating expenses	(801)	(166)	(87)	(113)	(1,126)	(2,293)	(245)	(2,538)	(1,753)	(375)	-	19	(4,647)
Operating profit/(loss) before impairment losses	894	1,337	366	304	(957)	1,944	436	2,380	660	570	158	-	3,768
Impairment losses on financial instruments	(56)	(189)	(7)	(1)	-	(253)	(5)	(258)	(317)	(6)	-	-	(581)
Operating profit/(loss) after impairment losses	838	1,148	359	303	(957)	1,691	431	2,122	343	564	158	-	3,187
Net loss on sale of fixed assets	(8)	-	-	-	(2)	(10)	-	(10)	(12)	-	-	-	(22)
Valuation losses on investment properties	-	-	-	-	(101)	(101)	(22)	(123)	-	-	-	-	(123)
Share of profits less losses of associates and joint ventures	-	-	-	-	-	-	(1)	(1)	84	46	-	-	129
Profit/(Loss) before taxation	830	1,148	359	303	(1,060)	1,580	408	1,988	415	610	158	-	3,171
Depreciation for the period	(160)	(4)	(4)	(2)	(112)	(282)	(21)	(303)	(149)	(33)	-	-	(485)
<b>At 30<sup>th</sup> June, 2021</b>													
Segment assets	115,058	169,650	208,857	28,766	12,126	534,457	5,382	539,839	244,989	117,583	-	(41,583)	860,828
Investments in associates and joint ventures	-	-	-	-	-	-	75	75	4,241	4,735	-	-	9,051
Other assets – Assets held for sale	-	-	-	-	20	20	30,593	30,613	17	-	-	-	30,630
Total assets	115,058	169,650	208,857	28,766	12,146	534,477	36,050	570,527	249,247	122,318	-	(41,583)	900,509
Segment liabilities	325,584	48,832	64,358	29,317	2,703	470,794	1,515	472,309	217,767	107,873	-	(40,227)	757,722
Other liabilities – Liabilities held for sale	-	-	-	-	-	-	28,281	28,281	-	-	-	-	28,281
Total liabilities	325,584	48,832	64,358	29,317	2,703	470,794	29,796	500,590	217,767	107,873	-	(40,227)	786,003

**30. Segment Reporting (Continued)**

	Hong Kong operations												
	Hong Kong banking business						Others	Total	Mainland China operations	Overseas operations	Corporate management	Inter-segment elimination	Total
	Personal banking	Corporate banking	Treasury markets	Wealth management	Centralised operations	Total							
HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	
<b>6 months ended 30<sup>th</sup> June, 2020</b>													
Net interest income/(expense)	1,562	1,192	156	169	(57)	3,022	82	3,104	2,060	737	213	-	6,114
Non-interest income/(expense)	493	274	(18)	222	212	1,183	465	1,648	571	160	-	(19)	2,360
Operating income	2,055	1,466	138	391	155	4,205	547	4,752	2,631	897	213	(19)	8,474
Operating expenses	(838)	(152)	(84)	(112)	(1,039)	(2,225)	(219)	(2,444)	(1,580)	(345)	-	19	(4,350)
Operating profit/(loss) before impairment losses	1,217	1,314	54	279	(884)	1,980	328	2,308	1,051	552	213	-	4,124
(Charge for)/Write back of impairment losses on financial instruments	(117)	(564)	(73)	5	(2)	(751)	(3)	(754)	(1,715)	(206)	-	-	(2,675)
Impairment losses on assets held for sale	-	-	-	-	-	-	-	-	(5)	-	-	-	(5)
Impairment losses on intangible assets	-	-	-	-	-	-	-	-	(2)	-	-	-	(2)
Impairment losses on associates	-	-	-	-	-	-	-	-	-	(220)	-	-	(220)
Operating profit/(loss) after impairment losses	1,100	750	(19)	284	(886)	1,229	325	1,554	(671)	126	213	-	1,222
Net profit on sale of assets held for sale	-	-	-	-	-	-	-	-	1	1	-	-	2
Net profit on disposal of subsidiaries/associates	-	-	-	-	-	-	-	-	-	341	-	-	341
Net profit/(loss) on sale of fixed assets	(7)	-	-	-	1	(6)	-	(6)	(4)	(1)	-	-	(11)
Valuation losses on investment properties	-	-	-	-	(110)	(110)	(20)	(130)	-	-	-	-	(130)
Share of profits less losses of associates and joint ventures	-	-	-	-	-	-	(4)	(4)	72	122	-	-	190
Profit/(Loss) before taxation	1,093	750	(19)	284	(995)	1,113	301	1,414	(602)	589	213	-	1,614
Depreciation for the period	(172)	(3)	(3)	(2)	(105)	(285)	(20)	(305)	(153)	(34)	-	-	(492)
<b>At 31<sup>st</sup> December, 2020</b>													
Segment assets	115,004	163,163	218,240	31,371	11,406	539,184	9,244	548,428	230,472	113,192	-	(43,511)	848,581
Investments in associates and joint ventures	-	-	-	-	-	-	76	76	4,121	4,985	-	-	9,182
Other assets – Assets held for sale	-	-	-	-	20	20	26,620	26,640	17	-	-	-	26,657
Total assets	115,004	163,163	218,240	31,371	11,426	539,204	35,940	575,144	234,610	118,177	-	(43,511)	884,420
Segment liabilities	328,720	46,151	69,730	29,911	1,958	476,470	2,229	478,699	203,868	103,955	-	(42,762)	743,760
Other liabilities – Liabilities held for sale	-	-	-	-	-	-	26,864	26,864	-	-	-	-	26,864
Total liabilities	328,720	46,151	69,730	29,911	1,958	476,470	29,093	505,563	203,868	103,955	-	(42,762)	770,624

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

	30/6/2021							
	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Assets</b>								
Cash and balances with banks	45,737	17	277	91	-	-	14,248	60,370
Placements with and advances to banks	-	47,989	1,754	985	-	-	-	50,728
Trade bills	-	2,622	3,505	5,337	-	-	-	11,464
Trading assets	-	1,489	899	-	662	-	1,076	4,126
Derivative assets	-	-	-	-	-	-	5,231	5,231
Loans and advances to customers	3,020	76,060	37,374	102,319	195,242	115,154	1,664	530,833
Investment securities	-	7,419	4,979	24,510	61,853	40,146	2,298	141,205
Investments in associates and joint ventures	-	-	-	-	-	-	9,051	9,051
Fixed assets	-	-	-	-	-	-	13,768	13,768
Goodwill and intangible assets	-	-	-	-	-	-	1,905	1,905
Deferred tax assets	-	-	-	-	-	-	1,950	1,950
Other assets	46	7,248	6,262	16,432	6,236	19,781	13,873	69,878
<b>Total assets</b>	<b>48,803</b>	<b>142,844</b>	<b>55,050</b>	<b>149,674</b>	<b>263,993</b>	<b>175,081</b>	<b>65,064</b>	<b>900,509</b>
<b>Liabilities</b>								
Deposits and balances of banks	3,326	16,200	9,336	2,464	-	-	-	31,326
Deposits from customers	266,346	90,469	144,880	84,927	11,966	-	-	598,588
- Demand deposits and current accounts	72,780	-	-	-	-	-	-	72,780
- Savings deposits	191,451	-	-	-	-	-	-	191,451
- Time, call and notice deposits	2,115	90,469	144,880	84,927	11,966	-	-	334,357
Trading liabilities	-	-	-	-	-	-	1	1
Derivative liabilities	-	-	-	-	-	-	8,116	8,116
Certificates of deposit issued	-	4,651	14,307	34,644	9,466	-	-	63,068
Current taxation	-	-	-	861	-	-	-	861
Debt securities issued	-	-	-	3,005	2,399	-	-	5,404
Deferred tax liabilities	-	-	-	-	-	-	649	649
Other liabilities	1,107	5,883	6,791	21,167	15,727	6,533	10,451	67,659
- Lease liabilities	2	31	59	194	397	190	-	873
- Other accounts	1,105	5,852	6,732	20,973	15,330	6,343	10,451	66,786
Loan capital	-	-	-	3,897	6,434	-	-	10,331
<b>Total liabilities</b>	<b>270,779</b>	<b>117,203</b>	<b>175,314</b>	<b>150,965</b>	<b>45,992</b>	<b>6,533</b>	<b>19,217</b>	<b>786,003</b>
<b>Net gap</b>	<b>(221,976)</b>	<b>25,641</b>	<b>(120,264)</b>	<b>(1,291)</b>	<b>218,001</b>	<b>168,548</b>		

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

	31/12/2020							Total HK\$ Mn
	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	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	
<b>Assets</b>								
Cash and balances with banks	42,702	20	273	541	-	-	12,841	56,377
Placements with and advances to banks	-	64,378	1,219	1,252	-	-	-	66,849
Trade bills	1	3,250	6,225	2,317	-	-	-	11,793
Trading assets	-	178	-	-	95	36	881	1,190
Derivative assets	-	-	-	-	-	-	8,059	8,059
Loans and advances to customers	3,289	70,318	30,773	96,407	190,272	116,354	1,657	509,070
Investment securities	-	8,189	9,918	29,335	58,208	35,970	2,551	144,171
Investments in associates and joint ventures	-	-	-	-	-	-	9,182	9,182
Fixed assets	-	-	-	-	-	-	14,065	14,065
Goodwill and intangible assets	-	-	-	-	-	-	1,912	1,912
Deferred tax assets	-	-	-	-	-	-	2,022	2,022
Other assets	45	6,598	6,664	9,315	5,529	17,360	14,219	59,730
<b>Total assets</b>	<b>46,037</b>	<b>152,931</b>	<b>55,072</b>	<b>139,167</b>	<b>254,104</b>	<b>169,720</b>	<b>67,389</b>	<b>884,420</b>
<b>Liabilities</b>								
Deposits and balances of banks	980	12,957	7,732	9,474	-	-	-	31,143
Deposits from customers	259,701	96,354	130,613	89,267	13,267	-	-	589,202
- Demand deposits and current accounts	69,835	-	-	-	-	-	-	69,835
- Savings deposits	187,902	-	-	-	-	-	-	187,902
- Time, call and notice deposits	1,964	96,354	130,613	89,267	13,267	-	-	331,465
Derivative liabilities	-	-	-	-	-	-	13,016	13,016
Certificates of deposit issued	-	4,783	20,456	28,509	7,104	-	-	60,852
Current taxation	-	-	-	624	-	-	-	624
Debt securities issued	-	1	-	-	5,056	-	-	5,057
Deferred tax liabilities	-	-	-	-	-	-	460	460
Other liabilities	933	5,910	8,702	11,256	15,544	6,313	11,301	59,959
- Lease liabilities	2	34	62	238	399	201	-	936
- Other accounts	931	5,876	8,640	11,018	15,145	6,112	11,301	59,023
Loan capital	-	-	-	3,911	6,400	-	-	10,311
<b>Total liabilities</b>	<b>261,614</b>	<b>120,005</b>	<b>167,503</b>	<b>143,041</b>	<b>47,371</b>	<b>6,313</b>	<b>24,777</b>	<b>770,624</b>
<b>Net gap</b>	<b>(215,577)</b>	<b>32,926</b>	<b>(112,431)</b>	<b>(3,874)</b>	<b>206,733</b>	<b>163,407</b>		

### 32. Deferred Tax Assets and Liabilities Recognised

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

Deferred tax arising from:	Depreciation allowances in excess of related depreciation	Revaluation of properties	Impairment losses on financial assets	Revaluation of financial assets at FVOCI	Tax losses	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1 <sup>st</sup> January, 2021	345	115	(1,387)	122	(540)	(217)	(1,562)
Charged/(Credited) to income statement	(1)	-	(176)	-	245	57	125
Charged/(Credited) to reserve	-	(5)	-	176	-	(2)	169
Transfer to assets held for sale	-	-	-	(24)	16	-	(8)
Exchange and other adjustments	-	-	(15)	-	(8)	(2)	(25)
At 30 <sup>th</sup> June, 2021	<u>344</u>	<u>110</u>	<u>(1,578)</u>	<u>274</u>	<u>(287)</u>	<u>(164)</u>	<u>(1,301)</u>
Balance as at 31 <sup>st</sup> December, 2020	<u>345</u>	<u>115</u>	<u>(1,387)</u>	<u>122</u>	<u>(540)</u>	<u>(217)</u>	<u>(1,562)</u>

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

	30/6/2021 HK\$ Mn	31/12/2020 HK\$ Mn
Net deferred tax assets recognised on the statement of financial position	(1,950)	(2,022)
Net deferred tax liabilities recognised on the statement of financial position	<u>649</u>	<u>460</u>
	<u>(1,301)</u>	<u>(1,562)</u>

### 33. Reserves

	30/6/2021 HK\$ Mn	31/12/2020 HK\$ Mn
General reserve	13,657	13,657
Revaluation reserve on bank premises	1,904	1,895
Capital reserve	895	895
Exchange revaluation reserve	567	301
Capital reserve – staff share options issued	142	157
Fair value reserve	2,137	2,465
Liability credit reserve	(37)	(32)
Other reserves	5,153	5,138
Retained profits ( <i>Note</i> )	<u>34,234</u>	<u>32,852</u>
	<u>58,652</u>	<u>57,328</u>
Proposed dividends, not provided for	<u>1,022</u>	<u>700</u>

### 33. Reserves (Continued)

Note:

A regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances and investments in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the HKMA. As at 30<sup>th</sup> June, 2021, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Bank to shareholders by HK\$2,324 million (31/12/2020: HK\$1,762 million).

### 34. Additional Equity Instruments

	<u>30/6/2021</u>	<u>31/12/2020</u>
	HK\$ Mn	HK\$ Mn
Additional Tier 1 Capital Securities		
USD500 million undated non-cumulative subordinated capital securities (1)	3,878	3,878
USD650 million undated non-cumulative subordinated capital securities (2)	5,069	5,069
USD650 million undated non-cumulative subordinated capital securities (3)	5,021	5,021
	<u>13,968</u>	<u>13,968</u>

- (1) On 18<sup>th</sup> May, 2017, the Bank issued undated non-cumulative subordinated capital securities (“Additional Tier 1 Capital Securities”) with a face value of US\$500 million (equivalent to HK\$3,878 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.625% per annum coupon until the first call date on 18<sup>th</sup> May, 2022. The coupon will be reset every five years, if the Additional Tier 1 Capital Securities are not redeemed, to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.682% per annum. The coupon payments may be cancelled at the sole discretion of the Bank. The Additional Tier 1 Capital Securities will be written down if a non-viability event occurs and is continuing. They rank higher than ordinary shares in the event of a winding-up.
- (2) On 19<sup>th</sup> September, 2019, the Bank issued undated non-cumulative subordinated capital securities (“Additional Tier 1 Capital Securities”) with a face value of US\$650 million (equivalent to HK\$5,069 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.875% per annum coupon until the first call date on 19<sup>th</sup> September, 2024. The coupon will be reset every five years, if the Additional Tier 1 Capital Securities are not redeemed, to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 4.257% per annum. The coupon payments may be cancelled at the sole discretion of the Bank. The Additional Tier 1 Capital Securities will be written down if a non-viability event occurs and is continuing. They rank higher than ordinary shares in the event of a winding-up, and meet the loss-absorbing capacity requirements.
- (3) On 21<sup>st</sup> October, 2020, the Bank issued undated non-cumulative subordinated capital securities (“Additional Tier 1 Capital Securities”) with a face value of US\$650 million (equivalent to HK\$5,021 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.825% per annum coupon until the first call date on 21<sup>st</sup> October, 2025. The coupon will be reset every five years, if the Additional Tier 1 Capital Securities are not redeemed, to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 5.527% per annum. The coupon payments may be cancelled at the sole discretion of the Bank. The Additional Tier 1 Capital Securities will be written down if a non-viability event occurs and is continuing. They rank higher than ordinary shares in the event of a winding-up, and meet the loss-absorbing capacity requirements.

### 35. Consolidated Cash Flow Statement

Cash and cash equivalents	30/6/2021	30/6/2020
	HK\$ Mn	HK\$ Mn
(i) Components of cash and cash equivalents in the consolidated cash flow statement		
Cash and balances with banks with original maturity within three months	45,900	27,771
Placements with and advances to banks with original maturity within three months	47,579	60,419
Treasury bills with original maturity within three months	3,767	4,034
Certificates of deposit held with original maturity within three months	480	-
Debt securities with original maturity within three months	921	2,924
	98,647	95,148
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks	60,370	40,462
Placements with and advances to banks	50,728	63,990
Treasury bills, certificates of deposit held and debt securities		
- trading assets	3,050	462
- investment securities	138,867	156,009
	141,917	156,471
Add: Debt securities – investment securities included in “Assets held for sale”	25,376	-
Amount shown in the consolidated statement of financial position	278,391	260,923
Less : Amounts with an original maturity of beyond three months	(165,244)	(153,077)
Cash balance with central bank subject to regulatory restriction	(14,500)	(12,698)
Cash and cash equivalents in the consolidated cash flow statement	98,647	95,148

## 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 that are 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, including 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 which 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.

### 36. Fair Values of Financial Instruments (Continued)

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

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

	30/6/2021				31/12/2020			
	Level 1 HK\$ Mn	Level 2 HK\$ Mn	Level 3 HK\$ Mn	Total HK\$ Mn	Level 1 HK\$ Mn	Level 2 HK\$ Mn	Level 3 HK\$ Mn	Total HK\$ Mn
<u>Recurring fair value measurement</u>								
<b>Assets</b>								
Trade Bills - At FVOCI	-	10,707	-	10,707	-	11,424	-	11,424
Trading assets	1,076	3,050	-	4,126	881	309	-	1,190
Derivative assets	88	5,143	-	5,231	267	7,792	-	8,059
Investment securities								
- Mandatorily measured at FVTPL	2	4,561	1,323	5,886	2	4,987	850	5,839
- Measured at FVOCI	19,629	97,470	746	117,845	26,183	95,145	1,283	122,611
	<u>20,795</u>	<u>120,931</u>	<u>2,069</u>	<u>143,795</u>	<u>27,333</u>	<u>119,657</u>	<u>2,133</u>	<u>149,123</u>
Investment securities classified as assets held for sale								
- Mandatorily measured at FVTPL	1,446	3,280	-	4,726	1,026	3,702	-	4,728
- Measured at FVOCI	-	22,150	-	22,150	-	19,088	-	19,088
	<u>1,446</u>	<u>25,430</u>	<u>-</u>	<u>26,876</u>	<u>1,026</u>	<u>22,790</u>	<u>-</u>	<u>23,816</u>
<b>Liabilities</b>								
Trading liabilities	1	-	-	1	-	-	-	-
Derivative liabilities	18	8,098	-	8,116	104	12,912	-	13,016
Financial liabilities designated at FVTPL	-	33,531	-	33,531	-	30,091	-	30,091
	<u>19</u>	<u>41,629</u>	<u>-</u>	<u>41,648</u>	<u>104</u>	<u>43,003</u>	<u>-</u>	<u>43,107</u>
Derivative liabilities classified as liabilities held for sale	-	-	-	-	-	1	-	1

During the period ended 30<sup>th</sup> June, 2021 and year ended 31<sup>st</sup> December, 2020, 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 debt securities, equity securities and investment funds	Counterparty quote	N/A	N/A
	Net asset value	N/A	N/A
Market-comparable approach	Discounted cash flow model	Discount rate	30/6/2021: 13.3% (31/12/2020: 16.4%)
		Marketability discount	30/6/2021: 20% (31/12/2020: 20%)
	EV/EBIT	Earnings multiple	30/6/2021: 46.95 – 48.56 (31/12/2020: 43.49 – 52.88)
		Marketability discount	30/6/2021: 50% (31/12/2020: 50%)

### 36. Fair Values of Financial Instruments (Continued)

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

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

Valuation of financial instruments in Level 3 are 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:

	30/6/2021		31/12/2020	
	Investment securities mandatorily measured at FVTPL HK\$ Mn	Investment securities measured at FVOCI HK\$ Mn	Investment securities mandatorily measured at FVTPL HK\$ Mn	Investment securities measured at FVOCI HK\$ Mn
<b>Assets</b>				
At 1 <sup>st</sup> January	850	1,283	278	1,055
Additions/Purchases	365	-	510	-
Settlements	(8)	-	(9)	-
Changes in fair value recognised in the income statement	116	-	71	-
Changes in fair value recognised in the other comprehensive income	-	(537)	-	228
At 30 <sup>th</sup> June/31 <sup>st</sup> December	<u>1,323</u>	<u>746</u>	<u>850</u>	<u>1,283</u>
Total gains or losses for the period included in FVOCI fair value reserve of the other comprehensive income for assets held at the end of the reporting period	<u>-</u>	<u>(537)</u>	<u>-</u>	<u>228</u>
Total gains or losses for the period included in the income statement for assets held at the end of the reporting period recorded in net results from other financial instruments at FVTPL	<u>116</u>	<u>-</u>	<u>71</u>	<u>-</u>

### 36. Fair Values of Financial Instruments (Continued)

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

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

	30/6/2021			
	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	110	(110)	-	-
Investment securities measured at FVOCI	-	-	62	(62)
	<u>110</u>	<u>(110)</u>	<u>62</u>	<u>(62)</u>
	31/12/2020			
	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	71	(71)	-	-
Investment securities measured at FVOCI	-	-	107	(107)
	<u>71</u>	<u>(71)</u>	<u>107</u>	<u>(107)</u>

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

#### (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.

### 36. Fair Values of Financial Instruments (Continued)

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

- (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 when reliable estimates of such information can be made. The interest rate differentials could be estimated as the difference between the actual rates charged by lenders when the guarantee is made available and the estimated rates that lenders would have charged had the guarantees not been available.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30<sup>th</sup> June, 2021 and 31<sup>st</sup> December, 2020 except as follows:

	30/6/2021		31/12/2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Financial assets				
Investment securities measured at amortised cost	17,474	17,674	15,721	15,796
Investment securities measured at amortised cost classified as assets held for sale	2,026	2,244	2,104	2,380

### 37. Credit Risk

The Group adopts the criteria of stage allocation as follows:

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

The criteria of "significant increase of credit risk" has taken into consideration of 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 is equivalent to the globally understood definition of "investment grade".

### 37. Credit Risk (Continued)

#### (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.

	30/6/2021							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Loans and advances to customers at amortised cost</b>								
- Grades 1 - 15: Pass	507,166	638	14,897	24	-	-	522,063	662
- Grades 16 - 17: Special Mention	-	-	6,591	12	-	-	6,591	12
- Grade 18: Substandard	-	-	-	-	4,659	16	4,659	16
- Grade 19: Doubtful	-	-	-	-	1,228	44	1,228	44
- Grade 20: Loss	-	-	-	-	571	13	571	13
Total gross carrying amount	507,166	638	21,488	36	6,458	73	535,112	747
Impairment allowances	(850)	(3)	(620)	(2)	(2,809)	(66)	(4,279)	(71)
Carrying amount	506,316	635	20,868	34	3,649	7	530,833	676

	31/12/2020							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Loans and advances to customers at amortised cost</b>								
- Grades 1 - 15: Pass	482,325	819	17,485	42	-	-	499,810	861
- Grades 16 - 17: Special Mention	-	-	7,654	23	-	-	7,654	23
- Grade 18: Substandard	-	-	-	-	3,953	3	3,953	3
- Grade 19: Doubtful	-	-	-	-	2,370	96	2,370	96
- Grade 20: Loss	-	-	-	-	142	3	142	3
Total gross carrying amount	482,325	819	25,139	65	6,465	102	513,929	986
Impairment allowances	(845)	(4)	(1,038)	(3)	(2,976)	(49)	(4,859)	(56)
Carrying amount	481,480	815	24,101	62	3,489	53	509,070	930

### 37. Credit Risk (Continued)

#### (a) Credit Quality Analysis (Continued)

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

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

	30/6/2021							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Trade bills at amortised cost</b>								
- Grades 1 - 15: Pass	758	-	-	-	-	-	758	-
- Grades 16 - 17: Special Mention	-	-	-	-	-	-	-	-
- Grade 18: Substandard	-	-	-	-	-	-	-	-
- Grade 19: Doubtful	-	-	-	-	-	-	-	-
- Grade 20: Loss	-	-	-	-	-	-	-	-
Total gross carrying amount	758	-	-	-	-	-	758	-
Impairment allowances	(1)	-	-	-	-	-	(1)	-
Carrying amount	757	-	-	-	-	-	757	-

	31/12/2020							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Trade bills at amortised cost</b>								
- Grades 1 - 15: Pass	367	-	-	-	-	-	367	-
- Grades 16 - 17: Special Mention	-	-	5	-	-	-	5	-
- Grade 18: Substandard	-	-	-	-	-	-	-	-
- Grade 19: Doubtful	-	-	-	-	-	-	-	-
- Grade 20: Loss	-	-	-	-	-	-	-	-
Total gross carrying amount	367	-	5	-	-	-	372	-
Impairment allowances	(3)	-	-	-	-	-	(3)	-
Carrying amount	364	-	5	-	-	-	369	-

### 37. Credit Risk (Continued)

#### (a) Credit Quality Analysis (Continued)

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

	30/6/2021							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Trade bills at FVOCI</b>								
- Grades 1 - 15: Pass	10,671	-	36	-	-	-	10,707	-
- Grade 18: Substandard	-	-	-	-	-	-	-	-
Total carrying amount at fair value	10,671	-	36	-	-	-	10,707	-
Impairment allowances	(2)	-	-	-	-	-	(2)	-

	31/12/2020							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Trade bills at FVOCI</b>								
- Grades 1 - 15: Pass	11,056	-	361	-	-	-	11,417	-
- Grade 18: Substandard	-	-	-	-	7	-	7	-
Total carrying amount at fair value	11,056	-	361	-	7	-	11,424	-
Impairment allowances	(3)	-	(1)	-	-	-	(4)	-

	30/6/2021							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Placements with and advances to banks</b>								
- Grades 1 - 15: Pass	50,729	6	-	-	-	-	50,729	6
Total gross carrying amount	50,729	6	-	-	-	-	50,729	6
Impairment allowances	(1)	-	-	-	-	-	(1)	-
Carrying amount	50,728	6	-	-	-	-	50,728	6

	31/12/2020							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Placements with and advances to banks</b>								
- Grades 1 - 15: Pass	66,852	12	-	-	-	-	66,852	12
Total gross carrying amount	66,852	12	-	-	-	-	66,852	12
Impairment allowances	(3)	-	-	-	-	-	(3)	-
Carrying amount	66,849	12	-	-	-	-	66,849	12

### 37. Credit Risk (Continued)

#### (a) Credit Quality Analysis (Continued)

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

	30/6/2021			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Loan commitments</b>				
- Grades 1 - 15: Pass	207,173	4,853	-	212,026
- Grades 16 - 17: Special Mention	-	206	-	206
- Grade 18: Substandard	-	-	1	1
Total	207,173	5,059	1	212,233
Impairment allowances	(40)	(17)	-	(57)
<b>Financial guarantee contracts</b>				
- Grades 1 - 15: Pass	12,079	1,820	-	13,899
- Grades 16 - 17: Special Mention	-	-	-	-
- Grade 18: Substandard	-	-	-	-
Total	12,079	1,820	-	13,899
Impairment allowances	(3)	(4)	-	(7)
	31/12/2020			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Loan commitments</b>				
- Grades 1 - 15: Pass	187,734	7,621	-	195,355
- Grades 16 - 17: Special Mention	-	1,431	-	1,431
- Grade 18: Substandard	-	-	2	2
Total	187,734	9,052	2	196,788
Impairment allowances	(40)	(16)	(2)	(58)
<b>Financial guarantee contracts</b>				
- Grades 1 - 15: Pass	21,608	1,788	-	23,396
- Grades 16 - 17: Special Mention	-	148	-	148
- Grade 18: Substandard	-	-	1	1
Total	21,608	1,936	1	23,545
Impairment allowances	(12)	(2)	-	(14)

### 37. Credit Risk (Continued)

#### (a) Credit Quality Analysis (Continued)

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

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

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

	30/6/2021							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Debt investment securities measured at amortised cost</b>								
Aaa	-	-	-	-	-	-	-	-
Aa1 to Aa3	3,036	-	-	-	-	-	3,036	-
A1 to A3	4,898	70	-	-	-	-	4,898	70
Baa1 to Baa3	2,386	20	-	-	-	-	2,386	20
Below Baa3	1,733	22	-	-	-	-	1,733	22
Unrated	5,530	55	-	-	-	-	5,530	55
Total gross carrying amount	17,583	167	-	-	-	-	17,583	167
Impairment allowances	(109)	(1)	-	-	-	-	(109)	(1)
Carrying amount	17,474	166	-	-	-	-	17,474	166
<b>Debt investment securities measured at amortised cost classified as assets held for sale</b>								
Aaa	-	-	-	-	-	-	-	-
Aa1 to Aa3	12	-	-	-	-	-	12	-
A1 to A3	1,001	8	-	-	-	-	1,001	8
Baa1 to Baa3	987	11	-	-	-	-	987	11
Below Baa3	31	1	-	-	-	-	31	1
Unrated	-	-	-	-	-	-	-	-
Total gross carrying amount	2,031	20	-	-	-	-	2,031	20
Impairment allowances	(5)	-	-	-	-	-	(5)	-
Carrying amount	2,026	20	-	-	-	-	2,026	20

### 37. Credit Risk (Continued)

#### (a) Credit Quality Analysis (Continued)

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

	31/12/2020							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Debt investment securities measured at amortised cost</b>								
Aaa	-	-	-	-	-	-	-	-
Aa1 to Aa3	3,187	-	-	-	-	-	3,187	-
A1 to A3	3,938	65	-	-	-	-	3,938	65
Baa1 to Baa3	2,036	16	-	-	-	-	2,036	16
Below Baa3	1,193	24	-	-	-	-	1,193	24
Unrated	5,436	50	-	-	-	-	5,436	50
Total gross carrying amount	15,790	155	-	-	-	-	15,790	155
Impairment allowances	(69)	(1)	-	-	-	-	(69)	(1)
Carrying amount	15,721	154	-	-	-	-	15,721	154
<b>Debt investment securities measured at amortised cost classified as assets held for sale</b>								
Aaa	-	-	-	-	-	-	-	-
Aa1 to Aa3	11	-	-	-	-	-	11	-
A1 to A3	998	8	-	-	-	-	998	8
Baa1 to Baa3	1,009	12	-	-	-	-	1,009	12
Below Baa3	31	1	-	-	-	-	31	1
Unrated	62	1	-	-	-	-	62	1
Total gross carrying amount	2,111	22	-	-	-	-	2,111	22
Impairment allowances	(7)	-	-	-	-	-	(7)	-
Carrying amount	2,104	22	-	-	-	-	2,104	22

### 37. Credit Risk (Continued)

#### (a) Credit Quality Analysis (Continued)

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

	30/6/2021							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Debt investment securities measured at FVOCI</b>								
Aaa	7,284	10	-	-	-	-	7,284	10
Aa1 to Aa3	15,301	5	-	-	-	-	15,301	5
A1 to A3	52,605	666	-	-	-	-	52,605	666
Baa1 to Baa3	36,567	358	-	-	-	-	36,567	358
Below Baa3	221	4	-	-	-	-	221	4
Unrated	5,121	62	-	-	-	-	5,121	62
Total carrying amount at fair value	117,099	1,105	-	-	-	-	117,099	1,105
Impairment allowances	(185)	(2)	-	-	-	-	(185)	(2)
<b>Debt investment securities measured at FVOCI classified as assets held for sale</b>								
Aaa	-	-	-	-	-	-	-	-
Aa1 to Aa3	102	-	-	-	-	-	102	-
A1 to A3	11,217	76	-	-	-	-	11,217	76
Baa1 to Baa3	10,611	96	-	-	-	-	10,611	96
Below Baa3	165	4	-	-	-	-	165	4
Unrated	55	1	-	-	-	-	55	1
Total carrying amount at fair value	22,150	177	-	-	-	-	22,150	177
Impairment allowances	(104)	-	-	-	-	-	(104)	-

### 37. Credit Risk (Continued)

#### (a) Credit Quality Analysis (Continued)

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

	31/12/2020							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Debt investment securities measured at FVOCI</b>								
Aaa	8,415	9	-	-	-	-	8,415	9
Aa1 to Aa3	21,163	7	-	-	-	-	21,163	7
A1 to A3	49,729	744	-	-	-	-	49,729	744
Baa1 to Baa3	35,515	336	-	-	-	-	35,515	336
Below Baa3	246	5	-	-	-	-	246	5
Unrated	6,260	71	-	-	-	-	6,260	71
Total carrying amount at fair value	121,328	1,172	-	-	-	-	121,328	1,172
Impairment allowances	(201)	(2)	-	-	-	-	(201)	(2)
<b>Debt investment securities measured at FVOCI classified as assets held for sale</b>								
Aaa	-	-	-	-	-	-	-	-
Aa1 to Aa3	133	-	-	-	-	-	133	-
A1 to A3	9,187	60	-	-	-	-	9,187	60
Baa1 to Baa3	9,416	89	-	-	-	-	9,416	89
Below Baa3	167	4	-	-	-	-	167	4
Unrated	156	2	29	-	-	-	185	2
Total carrying amount at fair value	19,059	155	29	-	-	-	19,088	155
Impairment allowances	(72)	-	-	-	-	-	(72)	-

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

	30/6/2021	31/12/2020
	HK\$ Mn	HK\$ Mn
<b>Debt investment securities</b>		
Aaa	-	-
Aa1 to Aa3	-	-
A1 to A3	354	171
Baa1 to Baa3	3,816	4,279
Below Baa3	-	-
Unrated	124	121
Total carrying amount at fair value	4,294	4,571
<b>Debt investment securities classified as assets held for sale</b>		
Aaa	-	-
Aa1 to Aa3	-	-
A1 to A3	9	77
Baa1 to Baa3	970	976
Below Baa3	221	219
Unrated	-	-
Total carrying amount at fair value	1,200	1,272

### 37. Credit Risk (Continued)

#### (a) Credit Quality Analysis (Continued)

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

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

	<u>30/6/2021</u>	<u>31/12/2020</u>
	HK\$ Mn	HK\$ Mn
<b>Debt investment securities</b>		
Aaa	-	-
Aa1 to Aa3	-	-
A1 to A3	2,222	309
Baa1 to Baa3	624	-
Below Baa3	144	-
Unrated	60	-
Total carrying amount at fair value	<u>3,050</u>	<u>309</u>

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

	<u>30/6/2021</u>	<u>31/12/2020</u>
	HK\$ Mn	HK\$ Mn
<b>Derivative assets</b>		
Aa1 to Aa3	68	53
A1 to A3	2,716	4,590
Baa1 to Baa3	921	1,259
Below Baa3	-	264
Unrated	1,526	1,893
Total carrying amount at fair value	<u>5,231</u>	<u>8,059</u>

#### *Cash and balances with banks*

The Group held cash and balances with banks of HK\$60,400 million at 30<sup>th</sup> June, 2021 (31<sup>st</sup> December, 2020: HK\$56,396 million), of which 99% (31<sup>st</sup> December, 2020: 99%) of cash and balances with banks counterparties that are rated at investment grade, based on Moody's Investor Services, or equivalent ratings.

### 37. Credit Risk (Continued)

#### (b) Impairment Allowances Reconciliation

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

	30/6/2021			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Loans and advances to customers</b>				
Balance at 1 <sup>st</sup> January	849	1,041	3,025	4,915
Transfer to 12-month ECL	78	(78)	-	-
Transfer to lifetime ECL not credit-impaired	(12)	17	(5)	-
Transfer to lifetime ECL credit-impaired	(2)	(368)	370	-
New financial assets originated or purchased, assets derecognised, repayments and further lending	200	10	1	211
Write-offs	-	-	(1,349)	(1,349)
Net remeasurement of impairment allowances (including exchange adjustments)	(260)	-	833	573
Balance at 30 <sup>th</sup> June	<u>853</u>	<u>622</u>	<u>2,875</u>	<u>4,350</u>

Of which:

For advance to customers at amortised cost	850	620	2,809	4,279
For related accrued interest receivable	3	2	66	71
	<u>853</u>	<u>622</u>	<u>2,875</u>	<u>4,350</u>

	31/12/2020			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Loans and advances to customers</b>				
Balance at 1 <sup>st</sup> January	502	518	2,784	3,804
Transfer to 12-month ECL	23	(23)	-	-
Transfer to lifetime ECL not credit-impaired	(8)	12	(4)	-
Transfer to lifetime ECL credit-impaired	(5)	(68)	73	-
New financial assets originated or purchased, assets derecognised, repayments and further lending	324	344	364	1,032
Write-offs	-	-	(4,172)	(4,172)
Net remeasurement of impairment allowances (including exchange adjustments)	13	258	3,980	4,251
Balance at 31 <sup>st</sup> December	<u>849</u>	<u>1,041</u>	<u>3,025</u>	<u>4,915</u>

Of which:

For advance to customers at amortised cost	845	1,038	2,976	4,859
For related accrued interest receivable	4	3	49	56
	<u>849</u>	<u>1,041</u>	<u>3,025</u>	<u>4,915</u>

### 37. Credit Risk (Continued)

#### (b) Impairment Allowances Reconciliation (Continued)

	30/6/2021			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Debt investment securities</b>				
Balance at 1 <sup>st</sup> January	273	-	-	273
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 investment	50	-	-	50
Write-offs	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	(26)	-	-	(26)
Balance at 30 <sup>th</sup> June	<u>297</u>	<u>-</u>	<u>-</u>	<u>297</u>
Of which:				
For debt investment securities measured at amortised cost	109	-	-	109
For related accrued interest receivable	1	-	-	1
	<u>110</u>	<u>-</u>	<u>-</u>	<u>110</u>
For debt investment securities measured at FVOCI	185	-	-	185
For related accrued interest receivable	2	-	-	2
	<u>187</u>	<u>-</u>	<u>-</u>	<u>187</u>
31/12/2020				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Debt investment securities</b>				
Balance at 1 <sup>st</sup> January	359	4	-	363
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 investment	12	(4)	-	8
Write-offs	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	(19)	-	-	(19)
Transfer to assets held for sale	(79)	-	-	(79)
Balance at 31 <sup>st</sup> December	<u>273</u>	<u>-</u>	<u>-</u>	<u>273</u>
Of which:				
For debt investment securities measured at amortised cost	69	-	-	69
For related accrued interest receivable	1	-	-	1
	<u>70</u>	<u>-</u>	<u>-</u>	<u>70</u>
For debt investment securities measured at FVOCI	201	-	-	201
For related accrued interest receivable	2	-	-	2
	<u>203</u>	<u>-</u>	<u>-</u>	<u>203</u>

### 37. Credit Risk (Continued)

#### (b) Impairment Allowances Reconciliation (Continued)

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

	30/6/2021			Total HK\$ Mn
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	
<b>Others</b>				
Balance at 1 <sup>st</sup> January	89	19	121	229
Transfer to 12-month ECL	2	(2)	-	-
Transfer to lifetime ECL not credit-impaired	-	-	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-
New financial assets originated or purchased, assets derecognised and repayments	9	(2)	-	7
Write-offs	-	-	(1)	(1)
Changes in models	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	(15)	7	-	(8)
Balance at 30 <sup>th</sup> June	<u>85</u>	<u>22</u>	<u>120</u>	<u>227</u>
Of which:				
For trade bills at FVOCI	2	-	-	2
For related accrued interest receivable	-	-	-	-
	<u>2</u>	<u>-</u>	<u>-</u>	<u>2</u>
For trade bills at amortised cost ( <i>Note 19</i> )	1	-	-	1
For related accrued interest receivable	-	-	-	-
	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
For placements with and advances to banks ( <i>Note 18</i> )	1	-	-	1
For related accrued interest receivable	-	-	-	-
	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
For cash and balances with banks ( <i>Note 17</i> )	30	-	-	30
For related accrued interest receivable	-	-	-	-
	<u>30</u>	<u>-</u>	<u>-</u>	<u>30</u>
For loan commitments and financial guarantee contracts ( <i>Note 28</i> )	<u>43</u>	<u>21</u>	<u>-</u>	<u>64</u>
For account receivables and other accounts	<u>8</u>	<u>1</u>	<u>120</u>	<u>129</u>

### 37. Credit Risk (Continued)

#### (b) Impairment Allowances Reconciliation (Continued)

	31/12/2020			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Others</b>				
Balance at 1 <sup>st</sup> January	115	32	112	259
Transfer to 12-month ECL	2	(2)	-	-
Transfer to lifetime ECL not credit- impaired	(1)	1	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-
New financial assets originated or purchased, assets derecognised and repayments	(23)	(10)	4	(29)
Write-offs	-	-	(4)	(4)
Net remeasurement of impairment allowances (including exchange adjustments)	(4)	(2)	9	3
Balance at 31 <sup>st</sup> December	<u>89</u>	<u>19</u>	<u>121</u>	<u>229</u>
Of which:				
For trade bills at FVOCI	3	1	-	4
For related accrued interest receivable	-	-	-	-
	<u>3</u>	<u>1</u>	<u>-</u>	<u>4</u>
For trade bills at amortised cost ( <i>Note 19</i> )	3	-	-	3
For related accrued interest receivable	-	-	-	-
	<u>3</u>	<u>-</u>	<u>-</u>	<u>3</u>
For placements with and advances to banks ( <i>Note 18</i> )	3	-	-	3
For related accrued interest receivable	-	-	-	-
	<u>3</u>	<u>-</u>	<u>-</u>	<u>3</u>
For cash and balances with banks ( <i>Note 17</i> )	19	-	-	19
For related accrued interest receivable	-	-	-	-
	<u>19</u>	<u>-</u>	<u>-</u>	<u>19</u>
For loan commitments and financial guarantee contracts ( <i>Note 28</i> )	<u>52</u>	<u>18</u>	<u>2</u>	<u>72</u>
For account receivables and other accounts	<u>9</u>	<u>-</u>	<u>119</u>	<u>128</u>

The impairment allowances of trade bills at FVOCI are 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) Contingent liabilities and commitments

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

	30/6/2021 HK\$ Mn	31/12/2020 HK\$ Mn
Contractual amounts of contingent liabilities		
Direct credit substitutes	6,628	9,065
Transaction-related contingencies	1,718	1,325
Trade-related contingencies	5,499	4,303
	<u>13,845</u>	<u>14,693</u>
Contractual amounts of commitments		
Commitments that are unconditionally cancellable without prior notice	177,718	159,852
Other commitments with an original maturity		
- up to 1 year	3,736	7,093
- over 1 year	30,328	27,722
	<u>211,782</u>	<u>194,667</u>
Total	<u>225,627</u>	<u>209,360</u>
Credit risk weighted amounts	<u>21,064</u>	<u>22,946</u>
(b) Derivatives		
Fair value of derivatives		
Assets		
Exchange rate contracts	1,323	2,333
Interest rate contracts	1,604	2,004
Equity contracts	2,304	3,721
Others	-	1
	<u>5,231</u>	<u>8,059</u>
Liabilities		
Exchange rate contracts	1,146	2,827
Interest rate contracts	4,670	6,450
Equity contracts	2,300	3,740
Others	-	-
	<u>8,116</u>	<u>13,017</u>
Notional amounts of derivatives		
Exchange rate contracts	330,976	293,773
Interest rate contracts	423,037	428,454
Equity contracts	13,998	17,522
Others	-	77
	<u>768,011</u>	<u>739,826</u>

### 38. Off-balance Sheet Exposures (Continued)

#### (c) Capital commitments

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

	<u>30/6/2021</u> HK\$ Mn	<u>31/12/2020</u> HK\$ Mn
Expenditure authorised and contracted for	284	340
Expenditure authorised but not contracted for	191	116
	<u>475</u>	<u>456</u>

#### (d) Contingencies

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

### 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:

	<u>30/6/2021</u> HK\$ Mn	<u>30/6/2020</u> HK\$ Mn
Short-term employee benefits	83	67
Post-employment benefits	4	4
Equity compensation benefits	10	2
	<u>97</u>	<u>73</u>

#### (b) The Group maintains certain retirement benefit schemes for its staff. In the six months ended 30<sup>th</sup> June, 2021, the total amount of contributions the Group made to the schemes was HK\$106 million (six months ended 30<sup>th</sup> June, 2020: HK\$99 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.

### 39. Material Related Party Transactions (Continued)

The interest received from and interest paid to the Group's related parties for the six months ended 30<sup>th</sup> June, 2021, outstanding balances of amounts due from and due to them at 30<sup>th</sup> June, 2021 and maximum outstanding balance of amounts due from and due to them for the six months ended 30<sup>th</sup> June, 2021 are aggregated as follows:

	Key management personnel		Associates		Shareholders with significant influence	
	30/6/2021	30/6/2020	30/6/2021	30/6/2020	30/6/2021	30/6/2020
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest income	8	31	34	34	-	-
Interest expense	5	7	-	2	-	-
Amounts due from	735	2,246	1,623	1,440	3,409	1,208
Amounts due to	2,386	1,003	32	451	135	25
Maximum amounts due from	1,107	3,452	1,950	1,862	6,125	8,102
Maximum amounts due to	3,976	3,481	251	619	1,003	803
Committed facilities to	1,286	1,187	1,009	951	-	-

### 40. Basis of Consolidation

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

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

### 41. Comparative Figures

Certain 2020 comparative figures have been restated to conform to current period's presentation. Please refer to Note 12 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 19<sup>th</sup> August, 2021.

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

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

	<u>30/6/2021</u>	<u>31/12/2020</u>
	HK\$ Mn	HK\$ Mn
Assets held for sale ( <i>Note 25</i> )		
Disposal groups held for sale	30,593	26,620
Other properties	<u>37</u>	<u>37</u>
	<u>30,630</u>	<u>26,657</u>
Liabilities held for sale ( <i>Note 28</i> )		
Disposal groups held for sale	<u>28,281</u>	<u>26,864</u>

On 23<sup>rd</sup> September, 2020, the Bank announced that it had completed its comprehensive strategic review and decided to initiate a sale process for its wholly-owned subsidiary, BEA Life Limited (“BEA Life”). Subsequently, the Bank launched the sale process of BEA Life and the residual life insurance portfolio underwritten by its wholly owned subsidiary, Blue Cross (Asia-Pacific) Insurance Limited (“Blue Cross”).

On 24<sup>th</sup> March, 2021, the Bank entered into the Share Sale and Framework Agreement with AIA in relation to the sale of BEA Life to AIA. On the same day, the Bank entered into the Regional Distribution Agreement with AIA setting out the framework for the arrangements proposed to be entered into under which the AIA Group will be the exclusive provider of life insurance products for the Bank’s personal banking customers in Hong Kong, Mainland China and Macau, including for the avoidance of doubt the Greater Bay Area. The consideration for the sale of BEA Life and the Bank’s entry into and compliance with the distribution arrangements contemplated in the Regional Distribution Agreement is HK\$5,070 million in cash, plus an amount equivalent to notional interest on that sum for the period from 30<sup>th</sup> September, 2020 to completion of the sale. In addition, on 24<sup>th</sup> March, 2021, BEA Life and Blue Cross entered into an agreement under which the residual life insurance portfolio of Blue Cross (“Portfolio”) will be transferred from Blue Cross to BEA Life at the net asset value of the Portfolio on closing of the Portfolio transfer. The sale of BEA Life transaction has been approved by Insurance Authority of Hong Kong and the completion of the sale is expected to take place shortly. The completion of the Portfolio transfer is subject to both regulatory approval and consent of the Hong Kong court.

The assets and liabilities of BEA Life and the Portfolio as at 30<sup>th</sup> June, 2021 and 31<sup>st</sup> December, 2020 are classified and presented separately as assets held for sale and liabilities held for sale in the consolidated financial statements.

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

#### 43. Assets Held for Sale (Continued)

	30/6/2021 HK\$ Mn	31/12/2020 HK\$ Mn
<b>ASSETS</b>		
Cash and balances with banks	-	3
Investment securities	28,902	25,920
Fixed assets	12	9
- Investment properties	-	-
- Other properties and equipment	12	9
Other assets	1,679	688
Assets held for sale	<u>30,593</u>	<u>26,620</u>
<b>LIABILITIES</b>		
Derivative liabilities	-	1
Current taxation	28	39
Deferred tax liabilities	9	1
Other liabilities	28,244	26,823
Liabilities held for sale	<u>28,281</u>	<u>26,864</u>

As at 30<sup>th</sup> June, 2021, the total equity of the disposal groups attributable to the Group was HK\$2,440 million (31/12/2020: HK\$2,688 million).

#### Investment Securities

	30/6/2021			
	Mandatorily measured at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt securities	1,200	22,150	2,026	25,376
Equity securities	1,702	-	-	1,702
Investment funds	1,824	-	-	1,824
	<u>4,726</u>	<u>22,150</u>	<u>2,026</u>	<u>28,902</u>
	31/12/2020			
	Mandatorily measured at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt securities	1,272	19,088	2,104	22,464
Equity securities	1,026	-	-	1,026
Investment funds	2,430	-	-	2,430
	<u>4,728</u>	<u>19,088</u>	<u>2,104</u>	<u>25,920</u>

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

	30/6/2021 HK\$ Mn
Cumulative loss recognised in other comprehensive income	<u>(525)</u>

#### 44. Exposures to Interbank Offered Rates

The following table shows outstanding amounts of financial instruments referencing the interest rate benchmarks that have yet to transit to alternative benchmark rates as at 30<sup>th</sup> June 2021, excluding the financial instruments that will expire before the transition date. The amounts of financial assets and liabilities are shown at gross carrying amounts, and derivatives are shown at notional amounts.

	30/6/2021							
	Gross Carrying Amount / Notional Amount							
	USD LIBOR HK\$ Mn	EUR LIBOR HK\$ Mn	GBP LIBOR HK\$ Mn	HIBOR HK\$ Mn	SG Swap Offer Rate HK\$ Mn	Bank Bill Swap Rate HK\$ Mn	Bank Bill Benchmark Rate HK\$ Mn	Other IBOR HK\$ Mn
<b>Assets</b>								
Loans and advances to customers	28,338	89	14,534	200,054	4,009	2,189	-	13,530
Placements with and advances to banks	2,049	-	-	6,151	-	-	-	-
Negotiable debt instruments held, including negotiable certificates of deposit	171	-	-	550	-	-	-	-
<b>Total Asset</b>	<b>30,558</b>	<b>89</b>	<b>14,534</b>	<b>206,755</b>	<b>4,009</b>	<b>2,189</b>	<b>-</b>	<b>13,530</b>
<b>Liabilities</b>								
Deposits from customers	-	-	-	10,896	-	-	-	-
Certificate of deposit and debt securities issued	2,702	-	-	230	-	-	-	-
<b>Total liabilities</b>	<b>2,702</b>	<b>-</b>	<b>-</b>	<b>11,126</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Derivatives</b>								
Interest rate swaps	55,303	-	215	53,592	173	9,142	666	6,732
Cross currency swaps	2,936	-	-	1,483	-	3,028	1,569	2,552
Other derivatives	311	-	1,503	1,843	-	11	-	-
<b>Gross total derivatives</b>	<b>58,550</b>	<b>-</b>	<b>1,718</b>	<b>56,918</b>	<b>173</b>	<b>12,181</b>	<b>2,235</b>	<b>9,284</b>

The Group has fair value hedge accounting relationships maturing beyond the anticipated cessation date for IBORs. Significant judgement will be required in determining when uncertainty is expected to be resolved and when targeted relief will cease to apply. As at 30<sup>th</sup> June 2021, the Group believes uncertainty continues to exist as to when and how the replacement may occur with respect to the relevant derivative hedging instruments, and so the targeted reliefs apply to the Group's hedge accounting relationships that reference benchmarks subject to reform or replacement.

As at 30<sup>th</sup> June 2021, the details of derivative instruments designated in fair value hedge accounting relationships linked to IBORs, excluding the derivative instruments that will expire before the transition date, are as follows:

	30/6/2021	
	Notional designated HK\$ Mn	Weighted average exposure years
	Interest rate swaps	
USD LIBOR	44,857	4.05
Bank Bill Swap Rate	9,125	0.87
HIBOR	2,302	0.17
Bank Bill Benchmark Rate	611	0.03
SG Swap Offer Rate	173	0.01
Other IBOR	5,220	0.28
	<b>62,288</b>	<b>5.41</b>

## Supplementary Financial Information

### A. Capital Adequacy

	30/6/2021	31/12/2020
	HK\$ Mn	HK\$ Mn
Capital base		
- Common Equity Tier 1 capital	83,395	81,784
- Additional Tier 1 capital	13,968	13,968
- Total Tier 1 capital	97,363	95,752
- Tier 2 capital	13,088	12,669
- Total capital	110,451	108,421
Risk weighted assets by risk type		
- Credit risk	448,528	453,886
- Market risk	14,672	11,516
- Operational risk	32,053	32,285
	495,253	497,687
Less: Deductions	(3,088)	(3,145)
	492,165	494,542
	30/6/2021	31/12/2020
	%	%
Common Equity Tier 1 capital ratio	16.9	16.5
Tier 1 capital ratio	19.8	19.4
Total capital ratio	22.4	21.9

Capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules issued by the HKMA. 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 Banking (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 Banking (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 Banking (Capital) Rules.

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

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

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

## Supplementary Financial Information (Continued)

### B. Leverage Ratio

	<u>30/6/2021</u>	<u>31/12/2020</u>
	HK\$ Mn	HK\$ Mn
Total Tier 1 capital	97,363	95,752
Exposure measure	900,572	879,956
	<u>30/6/2021</u>	<u>31/12/2020</u>
	%	%
Leverage ratio	10.8	10.9

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

### C. Liquidity Position

#### Liquidity coverage ratio

	<u>30/6/2021</u>	<u>31/12/2020</u>
	%	%
Average liquidity coverage ratio		
- First quarter	189.4	178.1
- Second quarter	177.3	177.7
- Third quarter	N/A	175.9
- Fourth quarter	N/A	183.8

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

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

#### Net stable funding ratio

	<u>30/6/2021</u>	<u>31/12/2020</u>
	HK\$ Mn	HK\$ Mn
Total available stable funding	542,465	540,767
Total required stable funding	474,589	455,969
	<u>30/6/2021</u>	<u>31/12/2020</u>
	%	%
Net stable funding ratio	114.30	118.6

The net stable funding ratio is calculated in accordance with the Banking (Liquidity) Rules effective from 1<sup>st</sup> January, 2018. The information for the regulatory disclosure can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at [www.hkbea.com](http://www.hkbea.com) or at the following direct link: [www.hkbea.com/regulatory\\_disclosures](http://www.hkbea.com/regulatory_disclosures).

## Supplementary Financial Information (Continued)

### D. Overdue, Rescheduled and Repossessed Assets

#### (a) Overdue and rescheduled advances to customers

	30/6/2021		31/12/2020	
	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	1,184	0.2	776	0.2
- 1 year or less but over 6 months	661	0.1	870	0.2
- Over 1 year	681	0.2	1,167	0.2
	<u>2,526</u>	<u>0.5</u>	<u>2,813</u>	<u>0.6</u>
Rescheduled advances to customers	132	0.0	166	0.0
Total overdue and rescheduled advances	<u>2,658</u>	<u>0.5</u>	<u>2,979</u>	<u>0.6</u>
Covered portion of overdue advances	<u>951</u>	<u>0.2</u>	<u>1,878</u>	<u>0.4</u>
Uncovered portion of overdue advances	<u>1,575</u>	<u>0.3</u>	<u>935</u>	<u>0.2</u>
Current market value of collateral held against the covered portion of overdue advances	<u>4,130</u>		<u>5,007</u>	
Specific provisions made on advances overdue for more than 3 months	<u>1,343</u>		<u>1,578</u>	

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

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

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

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

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

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

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

## Supplementary Financial Information (Continued)

### D. Overdue, Rescheduled and Repossessed Assets (Continued)

(b) Overdue and rescheduled advances to banks

	30/6/2021	31/12/2020
	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

	30/6/2021		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	10	-	-
- 1 year or less but over 6 months	6	-	-
- Over 1 year	61	-	-
	77	-	-
Rescheduled assets	1	-	-
Total other overdue and rescheduled assets	78	-	-
	31/12/2020		
	Accrued Interest	Debt Securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	8	-	-
- 1 year or less but over 6 months	20	-	-
- Over 1 year	73	-	-
	101	-	-
Rescheduled assets	-	-	-
Total other overdue and rescheduled assets	101	-	-

\* Other assets refer to trade bills and receivables.

(d) Repossessed assets

	30/6/2021	31/12/2020
	HK\$ Mn	HK\$ Mn
Repossessed land and buildings (Note)	252	211
Repossessed vehicles and equipment	17	28
Repossessed machines	-	-
Total repossessed assets	269	239

The amount represents the estimated market value of the repossessed assets as at 30<sup>th</sup> June, 2021 and 31<sup>st</sup> December, 2020.

Note: The balance included HK\$44 million (31/12/2020: HK\$52 million) relating to properties that were contracted for sale but not yet completed.

## **Supplementary Financial Information (Continued)**

### **E. Banking Disclosure Statement**

Additional information disclosures for this period which are prepared in accordance with the Banking (Disclosure) Rules, the disclosure requirements in Part 6 of Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules and disclosure templates issued by the HKMA can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at [www.hkbea.com](http://www.hkbea.com) or at the following direct link: [www.hkbea.com/regulatory\\_disclosures](http://www.hkbea.com/regulatory_disclosures).

## **INTERIM DIVIDEND**

The Board has declared an interim dividend for the six months ended 30<sup>th</sup> June, 2021 of HK\$0.35 per Share (the “2021 Interim Dividend”) (2020 Interim Dividend: HK\$0.16 per share). The 2021 Interim Dividend will be paid on or about Monday, 4<sup>th</sup> October, 2021 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 Thursday, 9<sup>th</sup> September, 2021. 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 the average closing price of the Shares on the Stock Exchange from Friday, 3<sup>rd</sup> September, 2021 (being the first day that the Shares were traded ex-dividend) to Thursday, 9<sup>th</sup> September, 2021 (both days inclusive). Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Thursday, 9<sup>th</sup> September, 2021.

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 Monday, 4<sup>th</sup> October, 2021.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Bank will be closed from Tuesday, 7<sup>th</sup> September, 2021 to Thursday, 9<sup>th</sup> September, 2021 (both days inclusive). In order to qualify for the 2021 Interim Dividend, all transfer documents accompanied by the relevant share certificates 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 Monday, 6<sup>th</sup> September, 2021.

## **FINANCIAL REVIEW**

### **Financial Performance**

For the first six months of 2021, BEA and its subsidiaries earned a profit attributable to owners of the parent of HK\$2,671 million, representing an increase of HK\$1,139 million or 74.3%, compared with the HK\$1,532 million earned in the same period in 2020.

The increase in attributable profit was mainly due to a significant decrease in impairment losses in Mainland China and Hong Kong. Credit costs improved as a result of fewer loan downgrades, as well as a positive impact from updates to economic variables in the Bank’s expected credit loss model.

Basic earnings per share rose from HK\$0.39 in the first half of 2020 to HK\$0.78 in the corresponding period in 2021.

The annualised return on average assets rose from 0.3% to 0.5%, while the annualised return on average equity rose from 2.5% to 4.6%.

Net interest income for the Group decreased by HK\$591 million, or 9.7%, to HK\$5,523 million, despite a 4.3% rise in average interest earning assets. Net interest margin narrowed from 1.59% to 1.38% under the prolonged low interest rate environment.

Net fee and commission income rose by HK\$105 million, or 7.3%, to HK\$1,540 million. Net commission income from sale of investment products, insurance policies, and securities brokerage grew. This increase was partly offset by a decline in credit card and trade finance income.

Net insurance profit was up by HK\$103 million or 38.8%. The increase was mainly due to improved results from underwriting and mark-to-market changes on financial instruments.

Taken together, net trading and hedging results and net results from other financial instruments rose by HK\$386 million, or 91.6%, to HK\$806 million. Overall, non-interest income rose by 22.5% to HK\$2,892 million. Total operating income slightly decreased by 0.7% to HK\$8,415 million.

Total operating expenses increased by 6.8% to HK\$4,647 million. The rise came as a result of IT investment, as well as higher performance incentives as profitability improved. Costs were also affected by a negative impact from Renminbi exchange rate movements. The cost-to-income ratio for the first half of 2021 was 55.2%, compared to 51.3% in the first half of 2020.

Impairment losses on financial instruments fell sharply, from HK\$2,675 million in 2020 to HK\$581 million in 2021. The Group's impaired loan ratio fell from 1.26% at the end of December 2020 to 1.21% at the end of June 2021. The impaired loan ratio for Hong Kong operations rose from 0.75% to 0.79%, while that for Mainland China operations fell from 3.10% to 2.63%.

Operating profit after impairment losses amounted to HK\$3,187 million, an increase of HK\$1,965 million, or 160.8%.

In the first half of 2020, the Group booked a profit of HK\$341 million on the sale of subsidiaries and associates. No similar gain was recognised in the first half this year. Valuation on investment properties recorded a net loss of HK\$123 million.

After accounting for income taxes, profit increased to HK\$2,697 million, an increase of 73.1% compared to the HK\$1,558 million recorded in the first half of 2020.

### **Financial Position**

The Group's total consolidated assets stood at HK\$900,509 million at the end of June 2021, an increase of 1.8% compared to HK\$884,420 million at the end of 2020.

Gross advances to customers increased by 4.1% to HK\$535,112 million.

Driven by the strong contribution from net profit for the period, total equity attributable to owners of the parent increased to HK\$100,251 million, a rise of 1.4%.

Total deposits from customers increased by 1.6% to HK\$598,588 million. Of the total, demand deposits and current account balances increased by HK\$2,945 million, or 4.2%; savings deposits increased by HK\$3,549 million, or 1.9%; and time deposits increased by HK\$2,892 million, or 0.9%. Total deposit funds, comprising deposits from customers and all certificates of deposit issued, increased by 1.8% to HK\$661,656 million.

As at 30<sup>th</sup> June, 2021, the total capital ratio, tier 1 capital ratio, and common equity tier 1 capital ratio were 22.4%, 19.8%, and 16.9%, respectively. The average liquidity coverage ratio for the quarter ended 30<sup>th</sup> June, 2021 was 177.3%, well above the statutory minimum of 100%.

### **BUSINESS REVIEW**

In the first half of this year, the nascent economic rebound gathered momentum, spurred by optimism over the vaccine rollout. However, the emergence of more infectious strains of the virus heightened uncertainties and the COVID-19 pandemic continued to cloud the global economy.

Hong Kong's economy benefitted from the global rebound, with exports rising 30% on an annualised basis in the first half of the year. Unemployment fell to an average of 5.5% during the April-to-June period, down from 6% between March and May. Riding on this trend, the economy grew by 7.8% year-on-year over the first six months of the year. Property prices were up by 3.8% year-to-date in June, reaching their highest level since July 2019 at a mere 0.6% below the peak level seen in May that year.

The recovery is uneven, with some sectors lagging behind, including the airline and hotel industries. However, with a relatively stable epidemic situation in Hong Kong, positive momentum will continue. Due to different bases of comparison, the growth rate in the second half will be lower than the first. For the year as a whole, BEA projects that Hong Kong's economy will expand by 5.8% year-on-year, with inflation reaching 1.5%. The unemployment rate will stand at 4.8% at year-end.

The Mainland economy has recovered strongly. Taken over two years, value-added industrial output grew by an average of 6.5% per annum in June. Investment rose, mainly supported by public spending. The overall economy grew by 12.7% in the first two quarters of the year. Meanwhile, pushed by spiking commodity prices, producer prices expanded by 8.8% year-on-year in June. As rising costs filter through, cost inflation is certain to impact the manufacturing sector's profitability in the months to come. With numerous policy curbs, tightening on developers' financing and more stringent credit quotas, home price growth slowed month-on-month for the first time since November last year. The cost of housing rose by 0.5% month-on-month in June, down from 0.6% in May, a trend that should moderate further as the cooling measures remain in place.

Overall, China's economy is accelerating but domestic consumption remains sluggish. Over two years, average annual retail sales growth stood at a modest 4.9% in June. Core inflation (excluding food and energy) rose by only 0.9%. The People's Bank of China is expected to adopt an easier monetary policy, hoping to keep the economic momentum alive.

Looking ahead, the Chinese economy is expected to post a strong 2021, with the economy growing by 8.9% while inflation will remain modest at 1.4%.

## **Business – Hong Kong**

Profit before tax for Hong Kong operations increased by 40.6% year-on-year to HK\$1,988 million.

Growth was driven by higher fee income, reduced impairment losses and a positive swing in mark-to-market revaluations, as the business conditions and outlook improved.

Impairment losses were significantly lower due to fewer corporate loan downgrades, lower provisions on the retail portfolio, and a positive impact from updates to economic variables in the Bank's expected credit loss model.

The Bank focussed on growing non-interest income under the low-for-long interest rate environment. Efforts to uplift frontline productivity and drive fee-generating business were successful, and net fee and commission income increased by 21.7% year-on-year. Net insurance profit also rose notably on improved results from underwriting and mark-to-market revaluations.

The growth in non-interest income was partially offset by a decline in net interest income, as seen across the industry. Net interest margin narrowed as a result of the material drop in interbank rates since the second quarter of 2020. Overall, operating income increased by 3.5% year-on-year.

The Bank maintained a cautious approach to lending at the beginning of the year, and started to take a more proactive stance in the second quarter as the macroeconomic outlook improved. Demand for corporate loans showed good momentum as companies began to plan for the post-pandemic recovery.

BEA's customer loans in Hong Kong increased by 1.8% to HK\$301,186 million in the six months to 30<sup>th</sup> June, 2021, while debt investments grew by 2.3% to HK\$133,008 million. Total deposits rose by 1.1% to HK\$395,255 million. The Bank continued to attract low-cost deposits across all business units and optimise funding costs. The current and savings account ratio rose to 51.9%.

While cost containment remained a priority across the Bank, Hong Kong staff expenses rose with continued investment in BEA's digital and wealth management capabilities. Efforts to accelerate front-to-back digitalisation showed initial results and efficiency gains are expected to be realised in subsequent periods.

On 24<sup>th</sup> March, 2021, BEA announced the formation of a 15-year exclusive bancassurance partnership with AIA Group covering Hong Kong and Mainland China. Under the partnership, AIA Group will have exclusive access to provide life and long-term savings insurance solutions to the Bank's sizeable retail customer base. Meanwhile, BEA will leverage AIA Group's extensive product expertise and resources to build out its regional omni-channel insurance distribution platform, generating sustainable fee income growth.

## **Retail Banking**

Operating income for the Bank's retail operations was dragged by a decline in net interest income. Income from retail deposits was particularly affected by the aforementioned drop in interbank rates.

The impact was partially offset by a 14.6% rise in non-interest income, driven by robust growth in retail wealth activity. With an improved global outlook, investor sentiment picked up strongly from a slow period in the first half last year. Fee income from investment products and brokerage activities grew. Commissions from insurance product sales were also higher, led by a strong performance from distributing life insurance products in the first quarter.

The Bank has continued to refine its value propositions for different customer groups, with encouraging growth across key target segments. In particular, the affluent customer base grew by 13.9% year-on-year following a revamp of the SupremeGold all-in-one account. The Bank also saw a rise in investment activity among customers of its newly launched SupremeGold Private service. Meanwhile, the emerging affluent customer base rose by 9.5%. To further attract this segment, the Supreme Account has been relaunched with improved mobile and online offerings.

Continued progress was made in migrating basic transactions to the Bank's automated channels. The number of financial transactions made via mobile and online channels increased by 16.2% year-on-year, with digital investment transactions rising by 51.5%. In May, the Bank launched a new mobile rewards marketplace, BEA Mall, with attractive offers and interactive features to drive customer engagement. BEA will continue to develop its digital partnerships and ecosystem to expand customer reach.

## **Corporate & Commercial Banking**

The Bank supported its customers throughout the worst of the COVID-19 pandemic, helping them to weather the storm. The business environment turned increasingly positive during the first half of 2021 and, with lower impairments, Corporate Banking's performance improved.

The corporate loan balance rose by 4.1% over the period. With businesses benefitting from a gradual economic revival, loan demand increased towards the end of the first half, and this momentum is expected to continue in the second half of the year.

Operating income rose by 2.5% year-on-year, supported by 18.9% growth in non-interest income. Debt capital markets solutions have become a growing source of revenue following enhancements to the Bank's services last year. Fee revenues were also lifted by effective cross-selling of corporate wealth management products.

BEA continued to provide tailored solutions to target sectors, addressing business needs across value chains in related industries. At the same time, the Bank strengthened its trade finance offering to acquire quality customers, generate recurring revenue streams and capture deposits through operating accounts. BEA will further leverage its Mainland China network covering the GBA, Bohai Economic Rim, Yangtze River Delta and Central West Region to diversify into sectors with national policy support.

Meanwhile, the Bank remains committed to supporting the development of green and sustainable finance in Hong Kong. BEA established a Green & Sustainability-linked Lending Policy in the first quarter of 2021, with a focus on helping customers transition to a low-carbon economy. The value of green loans and bond investments in the corporate portfolio rose notably during the period. The Bank will continue to enhance its lending and investment policies, incorporate climate-related risk assessment in its financing decisions, and help clients to assess and manage sustainability risks and opportunities.

## **Wealth Management**

Private Banking recorded a mild decline in operating income. Assets under Management ("AUM") dropped as clients de-risked their portfolios, particularly in notes and bonds. Despite this, sales of investment products continued to perform well. As a result, net fee and commission income rose by 11.2% year-on-year, in line with the Bank's strategy.

The two-way opening of Mainland China's financial markets will broaden Private Banking's potential client base. The GBA is home to one fifth of the Mainland's ultra-high-net-worth households, and their wealth is projected to grow significantly in the coming years. Preferences are also changing, with increasing demand for more sophisticated, diversified products including those related to succession planning. The market for wealth management and family office services is expected to grow accordingly. BEA is strengthening its integrated service platform and enriching its product offering to meet the holistic needs of this lucrative segment.

A new leadership team is coming on board to drive the continued revamp of the Bank's Wealth Management Division. Meanwhile, seasoned relationship managers are being recruited to strengthen Private Banking's salesforce and coverage in the GBA. Given BEA's established presence and long tradition of service in Mainland China, the Bank is well positioned to capture the boundless opportunities in the region.

The launch of the Wealth Management Connect scheme is expected to bring growing demand for cross-boundary wealth management services. The Bank has developed a seamless omni-channel fulfilment platform to meet the needs of customers seeking asset diversification and/or yield enhancement. Southbound customers will have access to a full range of products and services via BEA's dedicated Cross-border Centres and digital channels. For northbound customers, the Bank will provide market-leading products, including a GBA mortgage and comprehensive investment solutions.

### **Insurance & MPF Services**

Excluding mark-to-market revaluations and release of policy reserves, profit from BEA's core insurance business grew by 12.8% year-on-year, reflecting strong underwriting results.

BEA Life Limited, the Bank's wholly-owned life insurance arm, recorded substantial growth in new premium income during the first three months, as customers responded well to a mix of short-term and whole-life products. After the launch of BEA's bancassurance partnership with AIA Group in July, the Bank will focus on selling AIA's life insurance and long-term savings plans, which offer enhanced wealth accumulation opportunities to customers.

For Blue Cross (Asia Pacific) Insurance Limited, BEA's wholly-owned general insurance arm ("Blue Cross"), underwriting profit normalised following an exceptional result last year, when medical claims ratios dropped as customers avoided treatment during COVID-19. Premium income was pressured by a competitive market for medical insurance in the first half of 2021, as well as the impact of ongoing travel restrictions. Under these conditions, the company will focus on retaining quality group medical accounts, growing individual medical business in the high-net-worth segment, and maintaining positive sales momentum in commercial insurance.

Blue Cross has continued to launch new medical e-services for clients. In January, the company added an online doctor appointment service in its mobile app, enabling customers to make appointments at over 1,000 network service points. This was followed by a remote video doctor consultation service in May, provided in partnership with HKT Limited. Adoption of features including e-claims and QR code outpatient registration continued to rise, reducing cost to serve, as customers responded favourably to Blue Cross's convenient digital platform.

Total membership of BEA's Mandatory Provident Fund ("MPF") schemes grew to 838,000 at the end of June 2021, while AUM stood at HK\$33 billion. The Bank continued to promote the convenience of its digital MPF service channels to both employers and members, and the utilisation rate among each group rose to 40.3% and 91.7% respectively during the period under review.

### **Business – Mainland China**

Mainland China was the first major economy to return to growth following the outbreak of the COVID-19 pandemic last year. In the first half of 2021, Mainland China's economy surged by 12.7% compared to one year ago. Boosted by the government's policy support and strong external demand, exports and imports boomed, while both domestic consumption and fixed-asset investment rose.

Benefitting from the economic recovery, and as a result of effective risk management, BEA China turned a net profit of HK\$279 million in the first half of 2021. This is a marked improvement from the net loss of HK\$468 million in the same period last year. Loan growth momentum accelerated, while credit cost was maintained at a manageable level.

In the period under review, BEA China placed emphasis on sustainable income growth through deepening client relationships, improving product and service offerings, and laying a strong institutional foundation. In the first six months of 2021, BEA China's total loans grew by double digits to reach HK\$140,313 million, fuelled by an expansion in the corporate loan portfolio, now comprising a more diversified and higher quality client base.

This positive development has helped spur growth in BEA China's corporate banking business, with net interest income rising on a half-on-half basis. BEA China will continue to tap into business opportunities stemming from emerging pillar industries such as green energy, auto, healthcare, and technology, media and telecommunications. This will help expand the customer base, further diversify loan portfolio and revenue sources and drive fee income. At the same time, a greater emphasis will be placed on cross-selling of treasury products, transaction banking service, cross-boundary financing solutions and on-and-offshore debt capital market service.

In terms of retail business, BEA China continues to focus on developing its wealth management business. The exclusive bancassurance partnership between BEA China and AIA Life Insurance Company Limited has been sealed and was launched officially early in the second half of 2021. Leveraging BEA China's high-net-worth customer base, this partnership will help increase wallet share and drive more sustainable fee income in the future.

The consumer finance portfolio dropped by 10% in the first six months of the year compared to the same period in 2020. BEA China continues to work with its ecosystem partners and at the same time enhance its ability to self-originate loans for the mass market. A more refined business model and improved risk management controls for both pre-lending and post-lending are being rolled out to meet new regulatory requirements.

Corporate banking and retail banking both saw improved asset quality. The impaired loan ratio continued the steady decline registered since the second half of 2019 to 2.63% as of 30<sup>th</sup> June, 2021. Impairment losses for the first six months of 2021 stood at HK\$318 million, an 81.5% reduction year-on-year. This trend is expected to continue into the second half of 2021.

Operating expenses for BEA China were roughly flat on a Renminbi basis in the first half of 2021. The cost benefits of network consolidation and a more efficient workforce were offset by the absence of a one-time social insurance contribution exemption granted by the Central Government in 2020 amid the COVID-19 outbreak.

Going forward, the main focus will be on improving operating efficiency through various transformation initiatives. Aligning with the Group's strategy, BEA China has formulated a three-year digital transformation plan to further improve data governance, big data analytic capabilities and workflow automation. At the same time, BEA China has developed a technology roadmap to improve system resilience, and implement a more agile and cost-efficient IT infrastructure to facilitate more scalable growth in future. Meanwhile, BEA China is actively exploring strategic and synergistic partnerships in Mainland China to further enhance its business capabilities. Together, these initiatives will lay the essential foundation to enhance customer experience, strengthen risk management and improve productivity for years to come.

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

The performance of the Bank's overseas operations continued to improve in the first half of 2021, building on the foundation laid in 2020.

Due to the heightened risk environment, as the COVID-19 pandemic continued to surge, BEA's overseas branches acted prudently and exited challenging relationships where warranted. By focussing on business opportunities that remained viable despite the pandemic, customer advances through overseas operations registered modest growth of 2.8% in the first six months. Asset quality remained sound. At the end of June 2021, the impaired loan ratio stood at 0.42%.

Pre-provision operating profit for overseas branches fell by 0.8% year-on-year. This was primarily due to a significant drop in other interest income for deposits placed with central banks under the ultra-low interest rate environment. The impact of low interest rates on interest-earning assets was partially mitigated by lower borrowing costs, thanks to BEA's diversified funding sources.

Net profit after tax surged 66.1% to HK\$438 million driven by a net release of expected credit losses due to an improvement in the economic outlook. During the period under review, the cost-to-income ratio edged up to 39.3% from 37.2% on the back of higher operating costs when compared to a low base for the same period last year.

As the year progresses, major economies are expected to gradually reopen and economic activity should see a strong rebound, particularly in the US and the UK. BEA's overseas operations are in a good position to capitalise on opportunities in sectors that will perform well as the economic recovery takes hold on both sides of the Atlantic.

In Asia (excluding Hong Kong and Mainland China), BEA is carrying out a strategic repositioning exercise aimed at enhancing profitability. As part of this exercise, Singapore and Macau branches are shifting their focus to corporate banking.

The Bank's Taiwan operations maintained a prudent stance, given the economic headwinds facing the island. Going forward, Taiwan branch will focus on generating new business from large corporations and prioritise asset quality over loan growth.

The Bank's overall overseas strategy remains unchanged, with overseas branches leveraging BEA's strong Greater China and international network to expand cross-selling opportunities and enhance clients' total value to the Bank Group.

The Bank's overseas branches will seek additional cost savings by rationalising their physical networks and investing in digital capabilities to automate workflow and enhance the Bank's value to customers. BEA's overseas operations are also committed to the development of green and sustainability-linked financing in order to support the long-term growth of the Bank.

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

BEA Union Investment Management Limited ("BEA Union Investment") continued to strengthen its investment capabilities, aiming to deliver competitive investment performance and effective solutions to clients and business partners. BEA Union Investment sees an evolving global demand for investment solutions with ESG-focussed investing. From the beginning of 2021, BEA Union Investment, being a socially responsible investor, started integrating ESG aspects into its equity investment process. ESG issues were taken into account alongside financial parameters when making investment decisions, which BEA Union Investment believes will deliver long-term added value to investors.

To broaden its distribution base and further expand business scope in Mainland China, BEA Union Investment registered additional funds available for sale via the Mutual Recognition of Funds Scheme and opened up new online distribution platforms in the first half of the year. Looking ahead, GBA integration will create additional distribution opportunities for Hong Kong-based investment products via the Wealth Management Connect scheme.

### **Our People**

As of 30<sup>th</sup> June, 2021, the BEA Group employed 9,215 people:

	As of 30 <sup>th</sup> June, 2021	As of 31 <sup>st</sup> December, 2020	As of 30 <sup>th</sup> June, 2020
Hong Kong	5,359	5,576	5,560
Mainland China	3,277	3,373	3,511
Macau & Taiwan	140	151	154
Overseas	439	439	445
<b>Total</b>	<b>9,215</b>	<b>9,539</b>	<b>9,670</b>

To build a pipeline of young talent and provide them with employment opportunities, the Bank continuously participates in the HKMA Banking Talent Programme and sponsors intake through the FinTech Career Accelerator Scheme co-launched by the HKMA and the Applied Science and Technology Research Institute. In 2021, BEA also participated in the Greater Bay Area Youth Employment Scheme, which was launched by the HKSAR Government.

The Bank supports staff capacity building and invests in long-term talent development. Aligned with the Bank's transformation imperatives, BEA sets its learning and development strategy around four pillars, namely developing potential, building for the future, reskilling for change, and enabling a learning culture.

This year, the Bank is stepping up its Future Leader Accelerated Programme for high-potential executives, who will gain insight and development through different programme aspects such as the Leadership Development Centre and Executive Mentoring scheme. BEA also rolled out a new training framework to progressively upskill leaders and enable staff to stay adaptable and agile amid new challenges and opportunities. Specifically, new programmes were institutionalised to cultivate growth mindset among staff and promote digital literacy and capability.

The Bank also placed more emphasis on online learning due to social distancing needs. BEA's network meanwhile facilitates large-scale learning through live webcasts and educational videos shared via its intranet.

BEA believes in learning as a driver for sustainable growth, and thus encourages and supports forms of learning other than classroom training, like online learning, micro-learning, and knowledge and best practice sharing leveraging on the wide spectrum of expertise of staff and stakeholders. The Bank will accelerate this drive throughout the year.

The Bank has adopted the Enhanced Competency Framework ("ECF"), as guided by the HKMA, and support staff members by promoting training programmes and examinations that meet the ECF benchmark.

Amid COVID-19, the Bank continued to enhance communication efforts to optimise various means of cross-functional communications such as senior management forums, divisional town halls, cross-functional meetings and posts on BEA's intranet platform. As a result, there was remarkable increase in communication across BEA's Hong Kong, Mainland China and overseas operations.

To further enhance and reinforce a sound bank culture, BEA restructured its Bank Culture Work Group to reinforce the collective efforts to promote healthy risk culture. Bank-wide division-specific culture plans were developed based on relevant recommendations and comments received during the 2020 employee survey. A pulse employee survey will be conducted later this year following a full scale survey conducted in 2020.

Staff members' health and safety, as well as that of the public, is always of utmost importance to the Bank. As a result, provisions including staff members being permitted to take on flexible work arrangements such as split-team and work-from-home operations throughout the pandemic were implemented.

In support of the HKSAR Government's vaccination programme, the Bank provided one additional day of leave allowance to all staff for each COVID-19 vaccination received.

The Bank also requested that client-facing staff members and those with critical support functions either receive COVID-19 vaccinations or undergo regular testing, as guided by the HKMA. Staff were allowed to get tested during office hours and entitled to reimbursement if they paid for the tests.

## **Outlook**

More than a year from the initial outbreak of COVID-19, the global economy has rebounded, gradually overcoming fears of a protracted economic downturn. The massive scale of monetary and fiscal support worldwide, notably in advanced economies, has helped stem the pandemic's impact and keep economies afloat.

In the first half of this year, the global vaccine rollout gathered pace, buoying investor confidence and pushing global equities to new highs. While smaller businesses have been hard hit by the downturn, consumption is gradually picking up.

As the recovery gets underway, credit quality is gradually improving. Rising consumer spending and investments in infrastructure and talent will fuel inflationary pressure, but rate hikes are not expected in the immediate future. While the prevailing low interest rate environment is challenging to operate in, there are promising signs that net interest margins are stabilising in our key markets.

It remains to be seen whether inflation expectations will materialise sooner than expected and impact monetary policies. Differences in policy approaches and recovery paths across locations will impact asset prices and exchange rates, and therefore investment and consumption decisions. For the time being, the consensus is that the inflationary pressure is transitory.

On the back of surging demand from major economies that are emerging from lockdowns, the Mainland is expected to reinforce its manufacturing dominance, while continuing to foster growth in new industries. While there is increasing uncertainty from ongoing Sino-US tensions, the adoption of a “dual circulation” strategy is constructive to the sustained development and stability in the domestic market.

The GBA is also bringing additional opportunities, particularly in retail and cross-boundary segments. The impending launch of the Wealth Management Connect scheme in the second half of 2021 will further integrate the region’s major cities and open a new multi-billion dollar market that plays to the Bank’s strengths. With its well-established capabilities across the region, BEA is on target to benefit from first-mover advantage when the scheme is launched.

The financial industry faces disruptions arising from COVID-19 and rapid technological changes as well as an evolving regulatory environment. To stay competitive, banks need to stay nimble and enhance their offerings. BEA continues to expand its suite of services and invest in digitalisation to improve customer experience and streamline processes. The Bank has formulated a work plan for the development of its IT platforms, data infrastructure and other fintech solutions, in line with the HKMA’s Fintech 2025 strategy.

Overall, BEA is cautiously optimistic about the outlook for its key markets. Economic activity and employment are expected to strengthen in the second half of the year. The Bank is confident that its focus on enhancing service and asset quality will bring continued improvement in business volume, fee-generating activity and credit costs, setting the stage for sustainable growth as the global economy recovers.

## **RISK MANAGEMENT**

The Group recognises that a sound risk culture is the very foundation of its strength. To this end, the Group maintains a prudent and proactive risk management framework that supports risk awareness, proper behaviour and sound judgement in relation to risk-taking. All employees are responsible for the management of risk.

### **Principal Risks**

The Group faces a variety of risks that could affect its franchise, operations and financial health. The principal risks identified by the Group include credit risk, interest-rate risk, market risk, liquidity risk, operational risk, reputation risk, strategic risk, legal risk, compliance risk and technology risk. The description of principal risks and how they are managed is set out in the “Risk Management” section of the Annual Report 2020.

### **Key Developments**

The COVID-19 pandemic has presented a wide range of challenges to the Group, and the Group has actively managed the associated risks. Specifically, the Group enhanced risk management in the following areas in the first half of 2021:

Additional resources have been allocated for management of special assets and credit monitoring so as to proactively identify risk in the loan book and take timely mitigation action.

Additional resources have also been allocated to strengthen parental oversight of the credit risk of BEA China. An expanded operational risk plan has been introduced, incorporating enhanced communication protocols. Post-credit-approval reviews and thematic reviews are regularly conducted on selected portfolios by head office.

The Group continues to upgrade its operational risk framework. Recent enhancements include standardisation of the risk taxonomy and control monitoring mechanism; improvement of fraud-risk monitoring and detection capabilities; and update of policies for managing third-party risk.

The Group is committed to incorporating sustainable practices into all business and operational initiatives. In order to identify and assess the risks associated with this policy and determine the resilience of the Group to climate change, the Group maintained close dialogue with the regulator and industry peers. In addition, the Group launched the Green and Sustainability-linked Lending Policy, introduced risk management processes to address pertinent climate risks and conducted climate-change stress testing.

### Principal Uncertainties

During the first half of 2021, the Group identified a number of emerging risks. The key uncertainties currently facing the Group and the mitigation measures implemented are set out below.

Principal Uncertainties	Mitigation Measures
<b>Macro-economic Uncertainty Risk</b>	
<p><b>The COVID-19 pandemic and US-China tensions impacted a wide range of industries in 2019 and 2020. While a rebound is under way in 2021, the recovery is uneven and threatened by supply-chain bottlenecks.</b></p>	<p>The Group will continue to monitor the market situation and portfolios closely in order to manage risk exposure.</p> <p>From a credit risk perspective, the Bank continues to identify potential adverse events and devise ways to mitigate any impact on its capital adequacy and asset quality. Such measures include enhanced credit control on loan exposures most susceptible to the COVID-19 pandemic and US-China tensions, and performing stress testing on capital adequacy and loan-loss allowances.</p> <p>From a market risk perspective, the Bank continues to assess trends, manage exposures, review its risk-taking strategy and formulate mitigation actions for impacted securities (as necessary).</p> <p>From a compliance risk perspective, the Bank continues to track the development of relevant sanction regimes and adopt mitigating measures where appropriate.</p>
<b>Cyber Security Risk</b>	
<p><b>Cyber security risk is a key focus area for regulators and the banking industry, as these risks evolve rapidly. Attackers are constantly seeking more sophisticated and efficient ways to undermine banks' cyber security and operations.</b></p>	<p>The Group takes a multi-pronged approach to tackle cyber security risk:</p> <ul style="list-style-type: none"> <li>• Engage external auditors to assess the Group's cyber security controls against relevant information security standards and emerging risks to identify and implement necessary improvements</li> <li>• Analyse different intelligence sources to monitor the latest worldwide threats</li> <li>• Maintain a proper incident response management process including cyber security insurance policy</li> <li>• Enhance information security training programmes including periodic phishing tests to promote security awareness among staff and improve security practices</li> </ul> <p>Information security risks and controls are regularly reviewed and reported to directors in Risk Committee meetings quarterly.</p>

## ESG Risks

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**Climate change poses both short-term and long-term risks to the banking industry. “Physical risk” refers to the impacts of weather and climate-related events, which could lead to disruptions to the business and operations of both banks and their clients. “Transition risk” refers to the risk related to the process of adjustment towards a low-carbon economy, which can be prompted by policy, legal, technology and market changes to address climate mitigation and adaptation measures**

To manage negative impacts from ESG risks and cultivate ESG consciousness throughout the Group, BEA has:

- Developed a Green and Sustainability-linked Lending Policy
- Enhanced its ESG risk assessment checklist for credit applications by incorporating climate-risk considerations

In 2021, the Group will implement the roadmap for green and sustainable banking that it developed the previous year. The primary goal of the roadmap is to integrate ESG risks, including climate risk, into the Group’s risk appetite framework.

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## Interbank Offered Rate Reform Transition Arrangement

Following the decision by global regulators to phase out Interbank offered rates (“IBORs”) and replace them with risk-free rates as alternative reference rates (“ARRs”), the Group put in place detailed plans, processes and procedures for a smooth transition from IBOR to ARR products.

Fallback provisions have been incorporated into all new IBOR contracts. For all legacy IBOR-linked contracts with maturity after the expected IBOR cessation, the Group has established procedures to revise agreements with customers, by the end of this year, to the contract amendment for fallback clauses or replacement of IBOR benchmarks by ARRs.

The Group has been developing its product capabilities to offer ARR products during the year. Up to now, the Group has traded and issued ARR-referenced interest rate swaps, bilateral loans and certificates of deposit. More ARR products will be offered throughout the rest of this year. IT and operational changes necessary to facilitate an orderly transition are on schedule, enabling the Group to meet regulatory milestones.

IBOR reform exposes the Group to various risks, which are being managed and monitored closely. These risks include but are not limited to the following:

- Conduct risk arising from communications with clients and market counterparties due to the amendments required to legacy contracts necessary to affect IBOR reform;
- Financial risk to the Group and its clients that markets are disrupted due to IBOR reform giving rise to financial losses;
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces;
- Operational risk arising from changes to systems and processes, and the risk of payments being disrupted if an IBOR ceases to be available; and
- Risk on mismatch of hedging relationships as financial instruments transit to ARRs resulting in unrepresentative income statement volatility.

Please refer to Note 44 to discover outstanding financial instruments referencing interest rate benchmarks that have yet to transit to alternative benchmark rates as at 30<sup>th</sup> June, 2021.

## SUSTAINABILITY

The Group's commitment to sustainability is underlined by the decision last year to establish a Board-level ESG Committee to lead and oversee the Group's ESG strategy. The Committee held its first meeting in April 2021, where it set out the Group's ESG goals for 2021 and beyond.

These goals commit BEA to integrating ESG into its risk appetite framework and driving the development of green finance with a view to supporting the transition to a low-carbon economy. The goals are also included in the Bank's scorecard for 2021. The Group's progress towards achieving targets will be led by the ESG Work Group and monitored by the ESG Steering Committee.

In support of the Group's efforts, and to guide its own ESG work, BEA China established an ESG governance structure in April 2021. Its ESG Steering Committee will oversee strategic planning and performance monitoring, while its ESG Work Group will implement related initiatives.

To achieve the Group's ESG goals, management is creating a sustainability-conscious organisation in which each and every member of staff is involved and empowered. In May 2021, the Bank conducted its first "lunch and learn" session on sustainability, which was well received by participants. More sessions are planned on topics such as wellness in the workplace, green finance and climate change. In June 2021, the Group launched a new training module on sustainability for all staff. Meanwhile, sensitivity to environmental issues is being encouraged every day throughout the organisation. For example, staff canteens now offer eco-friendly lunch options to foster awareness of the impact of food choices on the rate of climate change.

Staff health and well-being has been a top priority. The Bank revised staff medical benefits in 2021 to enhance inpatient, outpatient and dental benefits, and introduce new coverage for mental health concerns. New mothers now receive an additional two weeks of maternity leave, while all employees at manager grade or below who joined the Bank during the past three years have been granted an extra day of annual leave. As part of the Bank's efforts to promote a healthy work-life balance, all staff are able to enjoy enhanced well-being time off benefits.

The Bank's Staff Sports & Recreation Club organised over 20 fitness, wellness, and recreational activities during the first half of 2021, which were attended by over 1,000 employees and their family members. These activities included physical health and stress relief activities, which were mainly conducted online due to social distancing requirements during the COVID-19 pandemic.

Talent development plays a critical role in ensuring BEA's continued success as an organisation and in realising the Group's vision to be the trusted and preferred banking partner in Greater China and beyond. To provide Management Trainees with a broader understanding of developments in the financial services sector on the Mainland, a special training conference was held in April and on-the-job attachment opportunities provided in the Bank's Greater Bay Area Office. To support the Bank's transformation journey, a "growth mindset" has been incorporated into training programmes across different tiers of the Bank, so that staff have the right mindset and skills to embrace change.

To commemorate the tenth anniversary of The Palliative Care in Residential Care Homes for the Elderly Programme, a flagship programme of The Bank of East Asia Charitable Foundation ("BEA Foundation"), the BEA Foundation, "la Caixa" Banking Foundation, and The Salvation Army Hong Kong and Macau Command conducted an international virtual symposium in Hong Kong in May 2021 that drew nearly 300 attendees including medical professionals, social workers, academics, and students.

For the sixth consecutive year, in March 2021, BEA served as title sponsor of The Community Chest BEA Charity Golf Day, which raised over HK\$2.5 million in support of mental health services.

The BEA Volunteer Team remained committed to helping vulnerable and under-resourced members of the local community despite curtailed mobility due to social distancing regulations. Co-Chief Executives Mr Adrian Li and Mr Brian Li, together with volunteers, personally wrote over 200 well wishes to needy families during the Lunar New Year, which were donated along with lunch boxes and gift bags containing daily essentials. By the end of June 2021, more than 100 volunteers (including staff members' friends and relatives) contributed around 580 service hours to the community in nearly 30 activities.

Education is a pillar of the BEA's community investment programme. In March 2021, the Bank participated in "Hong Kong Money Month" organised by the Investor and Financial Education Council. BEA hosted a virtual FinTech Education Workshop for target groups, including more than 330 students from 19 secondary schools. Participants learned about FinTech and banking as a career path. Members of the BEA Volunteer Team organised a series of STEM (science, technology, engineering, and mathematics) workshops for children of under-resourced families. Attendees explored their creativity by making kaleidoscopes and kinetic toy cars while learning about science.

On the Mainland, BEA China contributed CNY2.5 million to jointly establish the Shanghai Charity Foundation - Bank of East Asia Charity Fund ("the Fund"), which aims to support public health initiatives in the fight against COVID-19. As its first endeavour, the Fund established the Medical Staff Care Programme and donated CNY1 million to Huashan Hospital, which in turn offered financial assistance to front-line medical workers, training to nurses, and more.

Having set a target to reduce the Group's absolute emissions by 32% by the end of 2030, and by 19% by the end of 2023 as an interim target, BEA has begun efforts to cut emissions, starting with direct emissions from its fleet of vehicles. Given that the shuttle bus service between the Bank's Head Office and BEA Tower was not heavily utilised, the Bank suspended the service in the first half of 2021. Staff are now encouraged to make trips by public transport, which conveniently links both locations. Following the completion of energy audits at its Head Office and BEA Tower offices in the first half 2021, the Bank will consider recommendations in the audit report to reduce energy consumption at both buildings, which will support a further reduction in carbon emissions.

During the period under review, the Bank successfully completed the Municipal Solid Waste Charging Trial Scheme with Green Council in the Bank's offices in Central and Kwun Tong. Cleaning crews received training on how to weigh waste, and the Bank began submitting waste reports to Green Council for inspection starting from June. BEA effectively reduced food waste from its canteens by 10% during the first six months of 2021 compared to the same period in the previous year. Various initiatives contributed to the reduction, including preparing less food to prevent food waste, and by displaying posters in canteens to ask staff members to order only what they can consume.

For more information on BEA's ESG performance including community investment initiatives, please refer to the Group's 2020 ESG Report, which is available via the Bank's corporate website at [www.hkbea.com](http://www.hkbea.com) (About BEA/ Sustainability).

## **MAJOR RECOGNITION**

During the first six months of 2021, the Bank received a number of awards in recognition of its achievements. These included:

- "2021 Best SME's Partner Gold Award" (for the fourth consecutive year) from The Hong Kong General Chamber of Small and Medium Business;
- "Outstanding Achievement Award" in the Retail Bank of Year, Premium Segment Client Service, and Wealth Management Platform categories in the Financial Institution Awards 2021 from Bloomberg Businessweek (Chinese Edition);
- "Excellent Brand of Retail Banking for Premium Affluent Clients" in the Hong Kong Leaders' Choice Awards 2021 from Metro Finance; and
- "Best Personal Banking Brand, Hong Kong 2021", "Best Wealth Management Partner in North Asia 2021" and "Best Private Bank in Greater China 2021" from Global Brands Magazine.

Blue Cross received "GOtrip Travel Awards 2021 - Favourite Travel Insurance Company" from GOtrip, while Bank of East Asia (Trustees) Limited received Gold Ratings for the BEA (MPF) Value Scheme in the MPF Ratings' 2021 MPF Scheme Ratings and Awards programme from MPF Ratings Limited.

BEA Union Investment received several awards in recognition of superior performance from Refinitiv Lipper Fund Award 2021:

- Best Group Mixed Asset; and
- Best Group Overall.

#### **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 30<sup>th</sup> June, 2021.

#### **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, employees and other relevant stakeholders; 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 their roles in the application of effective governance policies and processes. A *Corporate Governance Policy* has also been established to direct and guide the business conducts and affairs of the Group.

Throughout the six months ended 30<sup>th</sup> June, 2021, the Bank has complied with all Code Provisions set out in the CG Code .

During the six months ended 30<sup>th</sup> June, 2021, the Bank has also followed the modules on CG-1, CG-5, Guidance on Empowerment of INEDs, and the 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 Audit Committee of the Bank has reviewed the results of the Bank for the six months ended 30<sup>th</sup> June, 2021 and the Bank's Interim Report 2021.

## **COMPLIANCE WITH MODEL CODE**

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

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

Following specific enquiries by the Bank, all Directors confirmed that they had complied with the required standard set out in the Model Code and the Bank’s Policy at all the applicable time during the six months ended 30<sup>th</sup> June, 2021.

By order of the Board  
**Adrian David LI Man-kiu**  
*Co-Chief Executive*

**Brian David LI Man-bun**  
*Co-Chief Executive*

Hong Kong, 19<sup>th</sup> August, 2021

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

- <sup>#</sup> *Executive Director*
- <sup>\*</sup> *Non-executive Director*
- <sup>\*\*</sup> *Independent Non-executive Director*

## GLOSSARY

### 詞彙

AIA 「友邦」	AIA Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of AIA Group 友邦保險有限公司，於香港註冊成立之有限責任公司，為友邦集團之全資附屬公司
AIA Group 「友邦集團」	AIA Group Limited 友邦保險控股有限公司
Bank Group or BEA Group or Group 「集團」或「本集團」	The Bank and its subsidiaries 東亞銀行及其附屬公司
Bank or BEA 「本行」或「東亞銀行」	The Bank of East Asia, Limited, a limited liability company incorporated in Hong Kong 東亞銀行有限公司，於香港註冊成立的有限公司
Bank Culture Reform 「銀行企業文化改革」	The circular in respect of Bank Culture Reform, issued by the HKMA on 2 <sup>nd</sup> March, 2017 金管局於 2017 年 3 月 2 日發出之銀行企業文化改革通告
Banking Ordinance 「《銀行業條例》」	The Banking Ordinance (Chapter 155 of the Laws of Hong Kong) 《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
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
CG Code 「《企業管治守則》」	Corporate Governance Code and Corporate Governance Report, Appendix 14 to the Listing Rules 《上市規則》附錄 14 內所載的《企業管治守則》及《企業管治報告》
CG-1 「CG-1」	Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorized Institutions, issued by the HKMA 金管局頒布之監管政策手冊 CG-1 內有關《本地註冊認可機構的企業管治》
CG-5 「CG-5」	Supervisory Policy Manual CG-5 on Guideline on a Sound Remuneration System, issued by the HKMA 金管局頒布之監管政策手冊 CG-5 內有關《穩健的薪酬制度指引》
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 包括任何任職本行董事職位的人士（不論其職銜如何），或文義另有所指的人士
ECL 「預期信貸損失」	Expected credit loss 預期信貸損失
ESG 「環境、社會及管治」	Environmental, social, and governance 環境、社會及管治
FVOCI 「通過其他全面收益以反映公平價值」	Fair value through other comprehensive income 通過其他全面收益以反映公平價值
FVTPL 「通過損益以反映公平價值」	Fair value through profit or loss 通過損益以反映公平價值
GBA 「大灣區」	Guangdong-Hong Kong-Macao Greater Bay Area 「粵港澳大灣區」
GBP 「英鎊」	Pound sterling, the lawful currency of the UK 英國法定貨幣
Guidance on Empowerment of INEDs 「提升獨立非執行董事的專業能力指引」	The guidance on Empowerment of Independent Non-Executive Directors (INEDs) in the Banking Industry in Hong Kong, issued by the HKMA 金管局頒布之提升香港銀行業獨立非執行董事的專業能力指引
HK\$ or HKD 「港幣」	Hong Kong dollar, the lawful currency of Hong Kong 香港法定貨幣
HK\$ Mn 「港幣百萬元」	HK\$ Million 港幣百萬元
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 HKSAR 「香港」	Hong Kong Special Administrative Region of the PRC 中華人民共和國香港特別行政區
IBOR 「銀行同業拆借利率」	Interbank offered rate 銀行同業拆借利率

IT 「資訊科技」	Information technology 資訊科技
LCR 「流動性覆蓋比率」	Liquidity Coverage Ratio 流動性覆蓋比率
LIBOR 「倫敦銀行同業拆借利率」	London Interbank Offered Rate 倫敦銀行同業拆借利率
Listing Rules  「《上市規則》」	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, modified or otherwise supplemented from time to time) 《香港聯合交易所有限公司證券上市規則》，經不時修訂、修改或以其他方式補充
MPF 「強積金」	Mandatory Provident Fund 強制性公積金
Senior Management 「高層管理人員」	The Co-Chief Executives and Deputy Chief Executives of the Bank 本行的聯席行政總裁及副行政總裁
Share(s) 「股份」	Ordinary share(s) of the Bank 本行普通股
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