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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 2020 INTERIM RESULTS

INTERIM RESULTS

The Board of Directors of the Bank is pleased to announce the unaudited results (Note 1(a)) of the Group for the six months ended 30th June, 2020.

Consolidated Income Statement

		6 months ended 30/6/2020	6 months ended 30/6/2019 Restated
	Notes	HK\$ Mn	HK\$ Mn
Interest income	3	11,809	14,573
Interest income calculated using the effective interest method		11,928	14,276
Other interest (expense)/income		(119)	297
Interest expense	4	(5,695)	(7,150)
Net interest income		6,114	7,423
Fee and commission income	5	1,854	1,878
Fee and commission expense		(419)	(524)
Net fee and commission income		1,435	1,354
Net trading profit	6	453	416
Net result on financial instruments at FVTPL	7	(106)	129
Net result on financial assets measured at FVOCI	8	37	108
Net loss on sale of investments measured at amortised cost		-	(5)
Net hedging profit	9	36	17
Net insurance profit	10	268	574
Other operating income	11	237	185
Non-interest income		2,360	2,778
Operating income		8,474	10,201
Operating expenses	12	(4,350)	(4,918)
Operating profit before impairment losses		4,124	5,283
Impairment losses on financial instruments	13	(2,675)	(5,063)
Impairment losses on assets held for sale		(5)	-
Impairment losses on intangible assets		(2)	-
Impairment losses on associate	23	(220)	-
Impairment losses		(2,902)	(5,063)
Operating profit after impairment losses		1,222	220
Net profit on sale of assets held for sale	14	2	82
Net profit/(loss) on disposal of subsidiaries/associates		341	(6)
Net loss on disposal of fixed assets	15	(11)	(6)
Valuation (losses)/gains on investment properties	24	(130)	18
Share of profits less losses of associates and joint ventures		190	328
Profit for the period before taxation		1,614	636
Income tax	16	(56)	402
Profit for the period		1,558	1,038
Attributable to:			
Owners of the parent		1,532	1,000
Non-controlling interests		26	38
Profit for the period		1,558	1,038
Profit for the Bank		2,496	3,246
Earnings per share			
Basic	1(b)	HK\$0.39	HK\$0.22
Diluted	1(b)	HK\$0.39	HK\$0.22

Consolidated Statement of Comprehensive Income

		6 months ended 30/6/2020	6 months ended 30/6/2019
	<i>Notes</i>	HK\$ Mn	HK\$ Mn
Net profit		<u>1,558</u>	<u>1,038</u>
Other comprehensive income for the period:			
Items that will not be reclassified to income statement:			
Premises:			
- deferred taxes	32	1	1
Fair value reserve (equity instruments):			
- net change in fair value		(278)	418
- deferred taxes	32	6	(7)
Liability credit reserve:			
- net change in fair value attributable to Group's own credit risk		(11)	-
- deferred taxes	32	2	(1)
Items that may be reclassified subsequently to income statement:			
Fair value reserve (debt instruments):			
- net change in fair value		(1,480)	986
- amount transferred to income statement on disposal		(234)	(66)
- on amortisation		(1)	(2)
- deferred taxes	32	311	(39)
Hedging reserve (cash flow hedges):			
- effective portion of changes in fair value of hedging instruments		4	(4)
- fair value change transferred to income statement		(6)	(4)
Share of changes in equity of associates and joint ventures		(148)	71
Exchange differences arising from translation of accounts/disposal of overseas branches, subsidiaries, associates and joint ventures		<u>(1,045)</u>	<u>52</u>
Other comprehensive income		<u>(2,879)</u>	<u>1,405</u>
Total comprehensive income		<u>(1,321)</u>	<u>2,443</u>
Total comprehensive income attributable to:			
Owners of the parent		(1,347)	2,411
Non-controlling interests		26	32
		<u>(1,321)</u>	<u>2,443</u>

Consolidated Statement of Financial Position

		30/6/2020	31/12/2019
	Notes	HK\$ Mn	HK\$ Mn
ASSETS			
Cash and balances with banks	17	40,462	51,525
Placements with and advances to banks	18	63,990	62,280
Trade bills	19	10,842	12,081
Trading assets	20	1,270	1,273
Derivative assets	39(a)	5,637	5,693
Loans and advances to customers	21	496,372	505,336
Investment securities	22	160,526	163,514
Investments in associates and joint ventures	23	8,481	9,970
Fixed assets	24	13,841	14,328
- Investment properties		5,202	5,333
- Other properties and equipment		7,685	7,907
- Right-of-use assets		954	1,088
Goodwill and intangible assets		1,918	1,926
Deferred tax assets	32	1,738	1,563
Other assets	25	43,636	35,709
Total Assets		848,713	865,198
EQUITY AND LIABILITIES			
Deposits and balances of banks		36,791	27,915
- Designated at fair value through profit or loss	26	2,979	3,182
- At amortised cost		33,812	24,733
Deposits from customers		552,558	573,527
- Demand deposits and current accounts		63,932	66,760
- Savings deposits		156,921	139,742
- Time, call and notice deposits		331,705	367,025
Trading liabilities	27	10	-
Derivative liabilities	39(a)	10,456	7,654
Certificates of deposit issued		58,671	74,059
- Designated at fair value through profit or loss	26	19,137	27,401
- At amortised cost		39,534	46,658
Current taxation		1,526	2,103
Debt securities issued		4,365	3,181
- Designated at fair value through profit or loss	26	-	-
- At amortised cost		4,365	3,181
Deferred tax liabilities	32	176	584
Other liabilities	28	62,317	56,299
Loan capital – at amortised cost	29	14,845	10,238
Total Liabilities		741,715	755,560
Share capital	1(d)	41,528	41,379
Reserves	33	51,169	53,928
Total equity attributable to owners of the parent		92,697	95,307
Additional equity instruments	34	13,963	13,963
Non-controlling interests		338	368
Total Equity		106,998	109,638
Total Equity and Liabilities		848,713	865,198

Consolidated Statement of Changes in Equity

	Share capital	General reserve	Revaluation reserve of bank premises	Capital reserve	Exchange revaluation reserve	Capital reserve – staff share options issued	Fair value reserve	Hedging reserve	Liability credit reserve	Other reserves ^{Note}	Retained profits	Total	Additional equity instruments	Non-controlling interests	Total equity
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1 st 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 (Note 1(d))	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 th 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
At 1 st January, 2019	39,925	14,054	1,752	933	(1,426)	158	664	15	(3)	4,963	30,791	91,826	8,894	2,855	103,575
Changes in equity															
Profit for the period	-	-	-	-	-	-	-	-	-	-	1,000	1,000	-	38	1,038
Other comprehensive income	-	-	1	-	58	-	1,290	(8)	(1)	71	-	1,411	-	(6)	1,405
Total comprehensive income	-	-	1	-	58	-	1,290	(8)	(1)	71	1,000	2,411	-	32	2,443
Shares issued in lieu of dividend	1,269	-	-	-	-	-	-	-	-	-	-	1,269	-	-	1,269
Equity settled share-based transaction	-	-	-	-	-	12	-	-	-	-	-	12	-	-	12
Transfer	-	5	(5)	95	-	(18)	-	-	-	287	(364)	-	-	-	-
Distribution/Dividends declared or approved during the period	-	-	-	-	-	-	-	-	-	-	(2,263)	(2,263)	-	(52)	(2,315)
Change of ownership in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	4	4
At 30 th June, 2019	41,194	14,059	1,748	1,028	(1,368)	152	1,954	7	(4)	5,321	29,164	93,255	8,894	2,839	104,988

Note: Other reserves include statutory reserve and other reserves.

Condensed Consolidated Cash Flow Statement

		6 months ended 30/6/2020	6 months ended 30/6/2019 Restated ^(Note)
	Notes	HK\$ Mn	HK\$ Mn
NET CASH (OUTFLOW)/INFLOW FROM OPERATIONS		(2,041)	13,195
Income tax paid			
Hong Kong profits tax paid		(738)	(16)
Outside Hong Kong profits tax paid		(183)	(382)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		<u>(2,962)</u>	<u>12,797</u>
INVESTING ACTIVITIES			
Dividends received from associates and joint ventures		-	1
Dividends received from equity securities measured at FVOCI		4	4
Purchase of fixed assets		(175)	(244)
Proceeds from disposal of other properties and equipment		1	16
Proceeds from sale of assets held for sale		8	372
Proceeds from disposal of associates		906	-
Additional investments in associates		-	(149)
NET CASH GENERATED FROM INVESTING ACTIVITIES		<u>744</u>	<u>-</u>
FINANCING ACTIVITIES			
Ordinary dividends paid		(921)	(689)
Distribution to Hybrid/Additional Tier 1 issue holders	1(c)	(397)	(357)
Issue of debt securities		1,393	2,841
Issue of loan capital		4,617	1,705
Payment of lease liabilities		(215)	(181)
Redemption of debt securities issued		(155)	(300)
Interest paid on loan capital		(269)	(361)
Interest paid on debt securities issued		(113)	(44)
NET CASH GENERATED FROM FINANCING ACTIVITIES		<u>3,940</u>	<u>2,614</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		<u>1,722</u>	<u>15,411</u>
CASH AND CASH EQUIVALENTS AT 1 ST JANUARY		94,638	86,020
Effect of foreign exchange rate changes		(1,212)	(74)
CASH AND CASH EQUIVALENTS AT 30 TH JUNE	35	<u>95,148</u>	<u>101,357</u>
Cash flows from operating activities included:			
Interest received		12,067	14,563
Interest paid		7,006	6,909
Dividend received		15	25

Note: To conform to current period's presentation, 2019 comparative figures have been restated by reclassifying cash flows of purchase and sale of certain non-trading equity securities from investing activities and cash flows of issuing and redemption of certificates of deposit from financing activities, to operating activities.

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 2019 audited accounts, except for the accounting policy changes required under new HKFRSs and amendments that are first effective for the current accounting period as described in note 2 below, or otherwise explicitly stated, and has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA, whose unmodified review report is included in the interim report which will be published on the websites of the HKEX and the Bank, together with the disclosures required by the Banking (Disclosure) Rules issued by the HKMA.

The financial information relating to the financial year ended 31st December, 2019 that is included in the interim financial report as comparative information does not constitute the Bank's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31st December 2019 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\$1,135 million (six months ended 30th June, 2019: HK\$643 million) after accounting for the distribution of HK\$397 million (six months ended 30th June, 2019: HK\$357 million) to Hybrid/Additional Tier 1 issue holders, and on the weighted average of 2,911 million (six months ended 30th June, 2019: 2,869 million) ordinary shares outstanding during the six months ended 30th June, 2020.
- (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\$1,135 million (six months ended 30th June, 2019: HK\$643 million) after accounting for the distribution of HK\$397 million (six months ended 30th June, 2019: HK\$357 million) to Hybrid/Additional Tier 1 issue holders, and on 2,911 million (six months ended 30th June, 2019: 2,869 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30th June, 2020, 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 30/6/2020	6 months ended 30/6/2019
	HK\$ Mn	HK\$ Mn
Interim dividend declared after the interim period of HK\$0.16 per share on 2,915 million shares (six months ended 30 th June, 2019: HK\$0.11 per share on 2,897 million shares)	<u>466</u>	<u>319</u>

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

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

	6 months ended 30/6/2020	6 months ended 30/6/2019
	HK\$ Mn	HK\$ Mn
Second interim dividend of HK\$0.35 per share on 2,906 million shares (2019: HK\$0.32 per share on 2,846 million shares)	1,017	910
Special dividend of HK\$0.35 per share on 2,846 million shares	-	996
	<u>1,017</u>	<u>1,906</u>

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

	6 months ended 30/6/2020	6 months ended 30/6/2019
	HK\$ Mn	HK\$ Mn
Interest paid or payable on the Hybrid Tier 1 capital instruments	-	106
Distribution paid on the Additional Tier 1 capital instruments	397	251
	<u>397</u>	<u>357</u>

(d) Share Capital

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

	<u>At 30th June, 2020</u>		<u>At 31st December, 2019</u>	
	<u>No. of shares</u>		<u>No. of shares</u>	
	Mn	HK\$ Mn	Mn	HK\$ Mn
Ordinary shares, issued and fully paid:				
At 1st January	2,907	41,379	2,846	39,925
Share issued in lieu of dividend	8	149	61	1,454
At 30 th June/31 st December	<u>2,915</u>	<u>41,528</u>	<u>2,907</u>	<u>41,379</u>

2. Changes in Accounting Policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31st December, 2019.

The Group has initially adopted Amendments to HKFRS 9 "Financial Instruments", HKAS 39 "Financial Instruments: Recognition and Measurement" and HKFRS 7 "Financial Instruments: Disclosures" in respect of Interest Rate Benchmark Reform and early adopted Amendment to HKFRS 16 "Leases" in respect of COVID-19-Related Rent Concessions from 1st January, 2020. A number of other new standards are effective 1st January, 2020 but they do not have a material effect on the Group's financial statements. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31st December, 2020.

Interest Rate Benchmark Reform: Amendments to HKFRS 9, HKAS 39 and HKFRS 7

Interest rate benchmark reform is a global initiative to replace or reform interbank offered rates (IBORs) that are used to determine interest cash flows on financial instruments such as loans to customers, debt securities and derivatives. The objective of the reform is to replace IBORs with alternative nearly risk-free rates (RFRs) that are based on actual market transactions. Consequently, financial contracts referencing these benchmarks may need to be amended to reference the alternative RFR in the applicable currency. The Amendments to HKFRS 9, HKAS 39 and HKFRS 7 modify specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform so that entities applying those hedge accounting requirements assume that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of interest rate benchmark reform. These Amendments replace the need for specific judgements to determine whether certain hedge accounting relationships that hedge the variability of cash flows or interest rate risk exposures for periods after the interest rate benchmarks are expected to be reformed or replaced continue to qualify for hedge accounting.

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

The Group enters into fixed-for-floating interest rate swaps to hedge the exposure to changes in the fair value due to movements in market interest rates on certain fixed rate financial instruments, including subordinated notes issued, debt securities investment and loans and advances to customers. As at 30th June 2020, the following populations of derivative instruments designated in fair value hedge accounting relationships were linked to IBOR reference rates:

	30/6/2020	
	Notional designated HK\$ Mn	Weighted average exposure years
Interest rate swaps		
USD London Interbank Offered Rate	61,442	3.37
Bank Bill Swap Rate	6,645	0.49
The Euro Interbank Offered Rate	4,157	0.23
Hong Kong Interbank Offered Rate	915	0.03
Singapore Dollar Swap Offer Rate	745	0.02
Bank Bill Benchmark Rate	703	0.03
	<u>74,607</u>	<u>4.17</u>

The notional contract amounts of interest rate derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding as at the reporting date; they do not represent amounts at risk.

Risks and governance regarding the impact of the market-wide benchmarks reform is set out in Transition Arrangements for Interbank Offered Rate Reform section of the Interim Report.

COVID-19-Related Rent Concessions: Amendment to HKFRS 16

The Amendment to HKFRS 16 provides practical expedient to exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modification. Practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30th June 2021; and
- there is no substantive change to other terms and conditions of the lease.

The amendment is effective for annual reporting periods beginning on or after 1st June 2020 with early adoption permitted. The Group has early adopted the Amendment from 1st January 2020 to all rent concessions that met the conditions. A total of HK\$2 million of rent concessions was recognised as a credit to variable lease payments that were not included in the measurement of lease liabilities (Note 12) during the period.

3. Interest Income

	6 months ended 30/6/2020	6 months ended 30/6/2019 Restated
	HK\$ Mn	HK\$ Mn
Loans, deposits with banks, and trade bills	9,962	12,235
Investment securities		
- measured at amortised cost or FVOCI	1,724	2,095
- designated at FVTPL	23	64
- mandatory at FVTPL	86	133
Trading assets	14	46
	<u>11,809</u>	<u>14,573</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\$11,928 million (six months ended 30th June, 2019: HK\$14,276 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 30/6/2020	6 months ended 30/6/2019
	HK\$ Mn	HK\$ Mn
Customer deposits and deposits of banks		
- at amortised cost	4,582	5,870
- designated at FVTPL	27	32
Certificates of deposit and debt securities issued		
- at amortised cost	592	659
- designated at FVTPL	226	205
Subordinated notes carried at amortised cost	248	361
Lease liabilities	18	21
Other borrowings	2	2
	<u>5,695</u>	<u>7,150</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\$5,476 million (six months ended 30th June, 2019: HK\$6,881 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 30/6/2020	6 months ended 30/6/2019 Restated ^(Note)
	HK\$ Mn	HK\$ Mn
Credit cards	485	598
Loans, overdrafts and guarantees	381	347
Investment products	222	158
Securities and brokerage	167	101
Trust and other fiduciary activities	139	145
Trade finance	137	169
Other retail banking services	81	81
Sale of third party insurance policies	26	33
Financial consultancy	11	19
Others	205	227
Total fee and commission income	<u>1,854</u>	<u>1,878</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

	1,442	1,362
Fee income	<u>1,854</u>	<u>1,878</u>
Fee expenses	<u>(412)</u>	<u>(516)</u>

Note: To better reflect the income nature, certain fee and commission income for 2019 has been reclassified among the categories of investment products, trust and other fiduciary activities, and other retail banking services; and certain fee income from loans for 2019 has been reclassified to interest income (Note 3).

6. Net Trading Profit

	6 months ended 30/6/2020	6 months ended 30/6/2019
	HK\$ Mn	HK\$ Mn
Profit on dealing in foreign currencies and funding swaps	223	163
(Loss)/Profit on trading securities	(42)	183
Net gain on derivatives	262	49
Loss on other dealing activities	(1)	-
Dividend income from trading equity securities	11	21
	<u>453</u>	<u>416</u>

7. Net Result on Financial Instruments at FVTPL

	6 months ended 30/6/2020	6 months ended 30/6/2019
	HK\$ Mn	HK\$ Mn
Net loss from financial instruments designated at FVTPL	(88)	(44)
Net (loss)/profit from financial instruments mandatorily measured at FVTPL (other than those included in net trading profits)	(18)	173
	<u>(106)</u>	<u>129</u>

8. Net Result on Financial Assets Measured at FVOCI

	6 months ended 30/6/2020	6 months ended 30/6/2019
	HK\$ Mn	Restated ^(Note) HK\$ Mn
Net profit on sale of debt securities	33	104
Dividend income from equity securities	4	4
	<u>37</u>	<u>108</u>

Note: To better reflect the income nature, dividend income from equity securities measured at FVOCI for 2019 has been reclassified from other operating income (Note 11) to conform to current period's presentation.

9. Net Hedging Profit

	6 months ended 30/6/2020	6 months ended 30/6/2019
	HK\$ Mn	HK\$ Mn
Fair value hedges		
- Net profit on hedged items attributable to the hedged risk	3,067	1,649
- Net loss on hedging instruments	(3,031)	(1,632)
	<u>36</u>	<u>17</u>

There was insignificant ineffectiveness recognised in the Group's income statement arising from cash flow hedge for the six months ended 30th June, 2020 and 30th June, 2019.

10. Net Insurance Profit

	6 months ended 30/6/2020	6 months ended 30/6/2019
	HK\$ Mn	HK\$ Mn
(a) Net insurance profit		
Net interest income	326	312
Net trading loss	(80)	(43)
Net (loss)/gain from other financial instruments mandatory at FVTPL	(161)	515
Net insurance premium	(b) <u>4,140</u>	<u>3,686</u>
	4,225	4,470
Net insurance claims and expenses	(c) <u>(4,155)</u>	<u>(3,935)</u>
	70	535
Operating expenses	(1)	(2)
Impairment loss on financial instruments	(27)	(3)
Net profit on sale of debt investment securities measured at FVOCI	226	44
	<u>268</u>	<u>574</u>
(b) Net insurance premium		
Gross insurance premium income (<i>Note</i>)	4,172	3,716
Reinsurer's share of gross insurance premium income	<u>(32)</u>	<u>(30)</u>
	<u>4,140</u>	<u>3,686</u>
(c) Net insurance claims and expenses		
Claims, benefits and surrenders paid	1,478	1,797
Movement in provisions	2,625	2,060
	<u>4,103</u>	<u>3,857</u>
Reinsurers' share of claim, benefits and surrenders paid	(36)	(251)
Reinsurers' share of movement in provisions	12	249
	<u>(24)</u>	<u>(2)</u>
	4,079	3,855
Net insurance commission expenses	76	80
	<u>4,155</u>	<u>3,935</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 30/6/2020	6 months ended 30/6/2019 Restated
	HK\$ Mn	HK\$ Mn
Rental from safe deposit boxes	61	59
Rental income on properties	80	88
Government subsidy – Employment Support Scheme	42	-
Others	54	38
	<u>237</u>	<u>185</u>

12. Operating Expenses

	6 months ended 30/6/2020 HK\$ Mn	6 months ended 30/6/2019 HK\$ Mn
Contributions to defined contribution plan		
- Hong Kong	94	84
- Outside Hong Kong	54	119
Equity-settled share-based payment expenses	2	12
Salaries and other staff costs	2,292	2,433
Total staff costs	2,442	2,648
Premises and equipment expenses excluding depreciation		
- Expenses relating to short-term leases	8	47
- Variable lease payments not included in the measurement of lease liabilities	-	3
- Maintenance, repairs and others	322	293
Total premises and equipment expenses excluding depreciation	330	343
Depreciation on		
- Bank premises, furniture, fixture and office equipment	274	263
- Right-of-use assets	218	186
	492	449
Amortisation of intangible assets	7	7
Other operating expenses		
- Internet platform charges	291	476
- Legal and professional fees	218	219
- Communications, stationery and printing	130	128
- Advertising expenses	89	129
- Card related expenses	73	96
- Insurance expenses	65	64
- Stamp duty, withholding taxes and value added taxes	49	70
- Business promotions and business travel	24	48
- Others	140	241
Total other operating expenses	1,079	1,471
Total operating expenses	4,350	4,918

13. Impairment Losses on Financial Instruments

	6 months ended 30/6/2020 HK\$ Mn	6 months ended 30/6/2019 HK\$ Mn
Loans and advances to customers	2,552	5,015
Others	123	48
	2,675	5,063

14. Net Profit on Sale of Assets Held for Sale

	6 months ended 30/6/2020 HK\$ Mn	6 months ended 30/6/2019 HK\$ Mn
Net profit/(loss) on sale of disposal group	2	(26)
Net profit on sale of properties	-	108
	<u>2</u>	<u>82</u>

15. Net Loss on Disposal of Fixed Assets

	6 months ended 30/6/2020 HK\$ Mn	6 months ended 30/6/2019 HK\$ Mn
Net loss on disposal of bank premises, furniture, fixtures and equipment	<u>(11)</u>	<u>(6)</u>

16. Income Tax

Taxation in the consolidated income statement represents:

	6 months ended 30/6/2020 HK\$ Mn	6 months ended 30/6/2019 HK\$ Mn
Current tax – Hong Kong		
Tax for the year	332	518
Over-provision in respect of prior years	<u>(139)</u>	<u>(147)</u>
	<u>193</u>	<u>371</u>
Current tax – outside Hong Kong		
Tax for the year	156	346
Over-provision in respect of prior years	<u>(2)</u>	<u>(68)</u>
	<u>154</u>	<u>278</u>
Deferred tax		
Origination and reversal of temporary differences	<u>(291)</u>	<u>(1,051)</u>
	<u>56</u>	<u>(402)</u>

The provision for Hong Kong profits tax is calculated at 16.5% (six months ended 30th June, 2019: 16.5%) of the estimated assessable profits for the six months ended 30th June, 2020.

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>30/6/2020</u> HK\$ Mn	<u>31/12/2019</u> HK\$ Mn
Cash in hand	1,104	1,228
Balances with central banks	25,716	35,252
Balances with other banks	<u>13,649</u>	<u>15,054</u>
	40,469	51,534
Less: Impairment allowances	(7)	(9)
- Stage 1	(7)	(9)
- Stage 2	-	-
- Stage 3	-	-
	<u>40,462</u>	<u>51,525</u>

18. Placements with and Advances to Banks

	<u>30/6/2020</u> HK\$ Mn	<u>31/12/2019</u> HK\$ Mn
Placements with and advances to banks		
Maturing		
- within one month	60,252	46,796
- after one month but within one year	3,740	15,333
- after one year	-	156
	<u>63,992</u>	<u>62,285</u>
Less: Impairment allowances	(2)	(5)
- Stage 1	(2)	(5)
- Stage 2	-	-
- Stage 3	-	-
	<u>63,990</u>	<u>62,280</u>
Of which:		
Placements with and advances to central banks	<u>-</u>	<u>-</u>

19. Trade Bills

	<u>30/6/2020</u> HK\$ Mn	<u>31/12/2019</u> HK\$ Mn
Measured at amortised cost	74	620
Less: Impairment allowances	(1)	-
- Stage 1	(1)	-
- Stage 2	-	-
- Stage 3	-	-
	<u>73</u>	<u>620</u>
Measured at FVOCI	10,769	11,461
	<u>10,842</u>	<u>12,081</u>

20. Trading Assets

	<u>30/6/2020</u>	<u>31/12/2019</u>
	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	-	34
Debt securities	462	56
Equity securities	808	1,183
	<u>1,270</u>	<u>1,273</u>

21. Loans and Advances to Customers

(a) Loans and advances to customers

	<u>30/6/2020</u>	<u>31/12/2019</u>
	HK\$ Mn	HK\$ Mn
Loans and advances to customers at amortised cost	501,465	509,105
Less: Impairment allowances	(5,093)	(3,769)
- Stage 1	(876)	(501)
- Stage 2	(1,022)	(516)
- Stage 3	(3,195)	(2,752)
	<u>496,372</u>	<u>505,336</u>

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

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

	30/6/2020		31/12/2019 Restated <i>(Note)</i>	
	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	24,464	57.57	25,243	59.07
- Property investment	50,305	89.41	49,904	89.77
- Financial concerns	15,250	54.38	15,322	63.71
- Stockbrokers	3,493	92.77	1,694	70.22
- Wholesale and retail trade	6,247	53.12	7,156	53.63
- Manufacturing	3,796	49.54	3,510	50.49
- Transport and transport equipment	5,570	57.30	4,736	64.85
- Recreational activities	85	71.87	99	71.92
- Information technology	394	4.36	655	2.19
- Others	19,202	53.61	17,256	58.99
- Sub-total	<u>128,806</u>	69.37	<u>125,575</u>	71.36
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,197	100.00	1,124	100.00
- Loans for the purchase of other residential properties	88,827	100.00	89,319	100.00
- Credit card advances	4,333	0.00	4,696	0.00
- Others	25,781	81.57	26,599	80.73
- Sub-total	<u>120,138</u>	92.44	<u>121,738</u>	91.93
Total loans for use in Hong Kong	248,944	80.50	247,313	81.49
Trade finance	3,958	50.82	3,686	53.24
Loans for use outside Hong Kong*	248,563	38.34	258,106	41.29
Total advances to customers	<u>501,465</u>	59.37	<u>509,105</u>	60.90

Note: To conform to current period's presentation, 2019 comparative figures have been restated by reclassifying certain advances from Others categories to Property development, Property investment and Loans for the purchase of other residential properties categories.

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

	30/6/2020		31/12/2019	
	Gross advances HK\$ Mn	% of gross advances covered by collateral %	Gross advances HK\$ Mn	% of gross advances covered by collateral %
Loans for use in PRC				
Industrial, commercial and financial				
- Property development	40,148	31.17	41,117	34.72
- Property investment	14,260	84.60	16,957	90.50
- Financial concerns	34,345	1.53	32,658	3.43
- Wholesale and retail trade	6,449	33.49	7,771	46.21
- Manufacturing	6,054	13.84	5,556	13.30
- Transport and transport equipment	1,709	54.89	2,315	73.20
- Recreational activities	85	65.00	560	2.89
- Information technology	1,023	1.11	1,326	0.90
- Others	16,512	24.57	16,341	27.53
- Sub-total	<u>120,585</u>	27.50	<u>124,601</u>	33.14
Individuals				
- Loans for the purchase of other residential properties	13,030	99.97	13,360	99.97
- Credit card advances	7,422	0.00	8,631	0.00
- Others	13,725	2.05	17,838	1.48
- Sub-total	<u>34,177</u>	38.94	<u>39,829</u>	34.20
Total loans for use in PRC	<u>154,762</u>	30.03	<u>164,430</u>	33.40

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:

	30/6/2020 HK\$ Mn	31/12/2019 HK\$ Mn
(i) Property development		
a. Individually impaired loans	1,324	1,329
b. Specific provisions	448	257
c. Collective provisions	124	139
d. New provision charged to income statement	284	1,745
e. Written off	-	2,058
(ii) Property investment		
a. Individually impaired loans	1,057	1,076
b. Specific provisions	470	301
c. Collective provisions	502	289
d. New provision charged to income statement	562	1,327
e. Written off	-	1,657
(iii) Loans for purchase of residential properties		
a. Individually impaired loans	310	264
b. Specific provisions	14	19
c. Collective provisions	161	71
d. New provision charged to income statement	129	68
e. Written off	-	6
(iv) Financial concerns		
a. Individually impaired loans	-	48
b. Specific provisions	-	-
c. Collective provisions	211	101
d. New provision charged to income statement	136	58
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.

	30/6/2020				
	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	257,023	522	1,320	455	530
Mainland China	170,443	2,839	4,703	2,646	1,154
Other Asian Countries and Regions	30,942	74	119	44	127
Others	43,057	7	332	50	87
Total	501,465	3,442	6,474	3,195	1,898
% of total advances to customers			<u>1.29%</u>		
Market value of collateral held against impaired advances to customers			<u>5,021</u>		
	31/12/2019				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Specific provisions	Collective provisions
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	252,488	391	716	176	396
Mainland China	186,380	1,603	4,997	2,508	533
Other Asian Countries and Regions	30,255	110	156	68	62
Others	39,982	-	320	-	26
Total	509,105	2,104	6,189	2,752	1,017
% of total advances to customers			<u>1.22%</u>		
Market value of collateral held against impaired advances to customers			<u>4,958</u>		

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

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

22. Investment Securities

	30/6/2020				Total HK\$ Mn
	Mandatorily measured at FVTPL	Designated at FVTPL	Measured at FVOCI	Measured at amortised cost	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	
Treasury bills (including Exchange Fund Bills)	-	-	25,756	2,829	28,585
Certificates of deposits held	-	-	1,053	1,186	2,239
Debt securities	6,241	-	106,749	12,195	125,185
Equity securities	2,830	-	777	-	3,607
Investment funds	910	-	-	-	910
	<u>9,981</u>	<u>-</u>	<u>134,335</u>	<u>16,210</u>	<u>160,526</u>

	31/12/2019				Total HK\$ Mn
	Mandatorily measured at FVTPL	Designated at FVTPL	Measured at FVOCI	Measured at amortised cost	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	
Treasury bills (including Exchange Fund Bills)	-	-	35,719	3,008	38,727
Certificates of deposits held	-	-	1,141	1,604	2,745
Debt securities	8,095	446	96,268	13,693	118,502
Equity securities	1,972	-	1,055	-	3,027
Investment funds	513	-	-	-	513
	<u>10,580</u>	<u>446</u>	<u>134,183</u>	<u>18,305</u>	<u>163,514</u>

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

Equity securities designated at FVOCI

	30/6/2020		31/12/2019	
	Fair value at 30/6/2020	Dividend income recognised	Fair value at 31/12/2019	Dividend income recognised
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Equity investments held for long-term strategic purposes	777	4	1,055	12

23. Investments in Associates and Joint Ventures

	30/6/2020 HK\$ Mn	31/12/2019 HK\$ Mn
Share of net assets	8,647	9,579
Goodwill	451	788
	9,098	10,367
Less: Impairment allowances	(617)	(397)
	8,481	9,970

At 30th June, 2020, 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\$3,365 million. An additional impairment charge of HK\$220 million was recorded at 30th June 2020, making an aggregated impairment allowance of HK\$617 million for AFFIN. 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 11.5% (31/12/2019: 10.3%) which is based on a Capital Asset Pricing Model calculation for AFFIN is used in the VIU calculation.

24. Fixed Assets

30/6/2020

	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 st January, 2020	5,333	8,160	5,962	14,122	1,457	23	1,480	20,935
Additions	-	3	172	175	113	-	113	288
Revaluation deficit	(130)	-	-	-	-	-	-	(130)
Disposals	-	-	(77)	(77)	-	-	-	(77)
Remeasurement	-	-	-	-	3	-	3	3
Expiry/termination of lease contracts	-	-	-	-	(71)	-	(71)	(71)
Transfer to asset classified as assets held for sale	-	(34)	-	(34)	-	-	-	(34)
Exchange adjustments	(1)	(100)	(46)	(146)	(23)	-	(23)	(170)
At 30 th June, 2020	<u>5,202</u>	<u>8,029</u>	<u>6,011</u>	<u>14,040</u>	<u>1,479</u>	<u>23</u>	<u>1,502</u>	<u>20,744</u>
Accumulated depreciation and amortisation								
At 1st January, 2020	-	2,049	4,166	6,215	388	4	392	6,607
Charge for the period	-	75	199	274	215	3	218	492
Expiry/termination of lease contracts	-	-	-	-	(59)	-	(59)	(59)
Written off on disposal	-	-	(65)	(65)	-	-	-	(65)
Transfer to asset classified as assets held for sale	-	(13)	-	(13)	-	-	-	(13)
Exchange adjustments	-	(25)	(31)	(56)	(3)	-	(3)	(59)
At 30 th June, 2020	<u>-</u>	<u>2,086</u>	<u>4,269</u>	<u>6,355</u>	<u>541</u>	<u>7</u>	<u>548</u>	<u>6,903</u>
Net book value at 30 th June, 2020	<u>5,202</u>	<u>5,943</u>	<u>1,742</u>	<u>7,685</u>	<u>938</u>	<u>16</u>	<u>954</u>	<u>13,841</u>
Net book value at 31 st December, 2019	<u>5,333</u>	<u>6,111</u>	<u>1,796</u>	<u>7,907</u>	<u>1,069</u>	<u>19</u>	<u>1,088</u>	<u>14,328</u>
The gross amounts of the above assets are stated:								
At cost	-	7,281	6,011	13,292	1,479	23	1,502	14,794
At Directors' valuation - 1989	-	748	-	748	-	-	-	748
At professional valuation - 2020	5,202	-	-	-	-	-	-	5,202
	<u>5,202</u>	<u>8,029</u>	<u>6,011</u>	<u>14,040</u>	<u>1,479</u>	<u>23</u>	<u>1,502</u>	<u>20,744</u>

25. Other Assets

	<u>30/6/2020</u>	<u>31/12/2019</u>
	HK\$ Mn	HK\$ Mn
Accrued interest	2,776	3,034
Customer liabilities under acceptances	23,280	21,513
Other accounts*	17,731	11,318
Less: Impairment allowances	(199)	(195)
- Stage 1	(18)	(44)
- Stage 2	(3)	(7)
- Stage 3	(178)	(144)
	<u>43,588</u>	<u>35,670</u>
Assets held for sale (Note 44)	48	39
	<u>43,636</u>	<u>35,709</u>

* Include nil contract assets (31/12/2019: nil) from contracts with customers under HKFRS 15.

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

	<u>30/6/2020</u>	<u>31/12/2019</u>
	HK\$ Mn	HK\$ Mn
Deposits and balances of banks	2,979	3,182
Certificates of deposits issued	19,137	27,401
	<u>22,116</u>	<u>30,583</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>30/6/2020</u>	<u>31/12/2019</u>
	HK\$ Mn	HK\$ Mn
Balance at 1 st January	(7)	(3)
Recognised in other comprehensive income during the period	(9)	(4)
Balance at 30 th June/31 st December	<u>(16)</u>	<u>(7)</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 2020 (31/12/2019: 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 June 2020 was HK\$18 million lower than the contractual amount due at maturity (31/12/2019: HK\$164 million lower).

27. Trading Liabilities

	30/6/2020 HK\$ Mn	31/12/2019 HK\$ Mn
Shares sold	10	-

28. Other Liabilities

	30/6/2020 HK\$ Mn	31/12/2019 HK\$ Mn
Accrued interest payable	2,274	3,585
Acceptance draft payable	23,280	21,513
Impairment allowances	98	82
- Financial guarantee contracts issued	6	8
- Loan commitments issued	92	74
Lease liabilities	991	1,107
Other accounts*	35,674	30,012
	<u>62,317</u>	<u>56,299</u>

* Include contract liabilities of HK\$615 million (31/12/2019: HK\$616 million) from contracts with customers under HKFRS 15.

29. Loan Capital

	30/6/2020 HK\$ Mn	31/12/2019 HK\$ Mn
Subordinated notes, at amortised cost with fair value hedge adjustments		
USD600 million fixed rate subordinated notes due 16th July, 2020 (1)	4,656	4,699
USD500 million fixed rate subordinated notes due 3rd November, 2026 (2)	3,928	3,864
Subordinated notes, at amortised cost without hedging		
USD600 million fixed rate subordinated notes due 29th May, 2030 (3)	4,618	-
RMB1,500 million fixed rate subordinated notes due 25th April, 2029 (4)	1,643	1,675
	<u>14,845</u>	<u>10,238</u>

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities during the period/year ended 30th June, 2020 and 31st December, 2019.

- (1) Two tranches of loan capital of face value totalling HK\$4,650 million (USD600 million) and carrying amount totalling HK\$4,656 million (31/12/2019: HK\$4,699 million) were issued on 16th July, 2010 (USD450 million) and on 23rd July, 2010 (USD150 million) by the Bank. These subordinated notes carrying a coupon rate of 6.125% p.a. qualifying as Tier 2 capital are listed on the Singapore Stock Exchange and will mature on 16th July, 2020. The notes are under fair value hedge accounting and a hedge ineffectiveness of HK\$4 million loss was recorded in first half of 2020 (first half of 2019: HK\$3 million loss).
- (2) Loan capital of face value of HK\$3,875 million (USD500 million) and carrying amount of HK\$3,928 million (31/12/2019: HK\$3,864 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 3rd November, 2016 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 3rd November, 2026. The notes are under fair value hedge accounting and a hedge ineffectiveness of HK\$1 million loss was recorded in first half of 2020 (first half of 2019: HK\$0.7 million loss).

- (3) Loan capital of face value of HK\$4,650 million (USD600 million) and carrying amount of HK\$4,618 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 29th May, 2020 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 29th May, 2030.
- (4) Loan capital of face value of HK\$1,645 million (RMB1,500 million) and carrying amount of HK\$1,643 million (31/12/2019: HK\$1,675 million) represents subordinated notes carrying a coupon of 4.94% p.a. issued on 25th April, 2019 by the Bank's subsidiary, The Bank of East Asia (China) Limited. The notes will mature on 25th April, 2029.

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, investment products & advisory and trusts & fiduciary services 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.

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.

	Hong Kong operations												
	Hong Kong banking business							Mainland China operations	Overseas operations	Corporate management	Inter- segment elimination	Total	
	Personal banking	Corporate banking	Treasury markets	Wealth management	Centralised operations	Total	Others						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	
6 months ended 30 th June, 2020													
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)
At 30 th June, 2020													
Segment assets	116,316	159,922	200,418	27,766	12,233	516,655	31,647	548,302	221,402	110,772	-	(40,292)	840,184
Investments in associates and joint ventures	-	-	-	-	-	-	74	74	3,758	4,649	-	-	8,481
Other assets – Assets held for sale	-	-	-	-	25	25	-	25	23	-	-	-	48
Total assets	116,316	159,922	200,418	27,766	12,258	516,680	31,721	548,401	225,183	115,421	-	(40,292)	848,713
Total liabilities	315,026	38,558	74,116	24,944	3,916	456,560	26,054	482,614	196,343	102,229	-	(39,471)	741,715

	Hong Kong operations														
	Hong Kong banking business							Total	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								
6 months ended 30 th June, 2019															
Restated <i>(Note)</i>															
Net interest income/ (expense)	1,689	1,143	536	201	(62)	3,507	74	3,581	2,845	818	179	-	7,423		
Non-interest income	461	229	248	206	148	1,292	805	2,097	559	139	-	(17)	2,778		
Operating income	2,150	1,372	784	407	86	4,799	879	5,678	3,404	957	179	(17)	10,201		
Operating expenses	(816)	(160)	(72)	(109)	(1,021)	(2,178)	(230)	(2,408)	(2,181)	(346)	-	17	(4,918)		
Operating profit/(loss) before impairment losses	1,334	1,212	712	298	(935)	2,621	649	3,270	1,223	611	179	-	5,283		
(Charge for)/Write back of impairment losses on financial instruments	(98)	12	21	(1)	1	(65)	(2)	(67)	(5,066)	70	-	-	(5,063)		
Operating profit/(loss) after impairment losses	1,236	1,224	733	297	(934)	2,556	647	3,203	(3,843)	681	179	-	220		
Net profit/(loss) on sale of assets held for sale	-	-	-	-	105	105	-	105	(23)	-	-	-	82		
Loss on disposal of subsidiaries/associates	-	-	-	-	-	-	-	-	-	(6)	-	-	(6)		
Net loss on sale of fixed assets	(6)	-	-	-	-	(6)	-	(6)	-	-	-	-	(6)		
Valuation gains on investment properties	-	-	-	-	15	15	2	17	-	1	-	-	18		
Share of profits less losses of associates and joint ventures	-	-	-	-	-	-	3	3	63	262	-	-	328		
Profit/(Loss) before taxation	1,230	1,224	733	297	(814)	2,670	652	3,322	(3,803)	938	179	-	636		
Depreciation for the period	(146)	(1)	(3)	(1)	(99)	(250)	(14)	(264)	(152)	(33)	-	-	(449)		
At 31 st December, 2019															
Restated <i>(Note)</i>															
Segment assets	117,815	160,856	199,827	28,342	11,694	518,534	29,169	547,703	241,082	113,978	-	(47,574)	855,189		
Investments in associates and joint ventures	-	-	-	-	-	-	79	79	3,741	6,150	-	-	9,970		
Other assets – Assets held for sale	-	-	-	-	5	5	-	5	34	-	-	-	39		
Total assets	117,815	160,856	199,827	28,342	11,699	518,539	29,248	547,787	244,857	120,128	-	(47,574)	865,198		
Total liabilities	325,912	38,606	68,813	22,709	3,060	459,100	23,594	482,694	213,666	105,872	-	(46,672)	755,560		

Note: During the reporting period, the segmental approach has been revised to provide a fair comparison of performance among operating segments in order to facilitate the Senior Management to have a better decision making about allocating resource to and assessing the performance of individual operating segments. 2019 comparative figures have been restated to conform to current year's presentation.

31. Analysis of Assets and Liabilities by Remaining Maturity

	30/6/2020							
	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets								
Cash and balances with banks	27,616	19	252	500	-	-	12,075	40,462
Placements with and advances to banks	-	60,251	3,400	339	-	-	-	63,990
Trade bills	2	2,502	4,469	3,869	-	-	-	10,842
Trading assets	-	-	318	-	144	-	808	1,270
Derivative assets	-	-	-	-	-	-	5,637	5,637
Loans and advances to customers	3,496	66,483	30,181	87,011	189,745	118,267	1,189	496,372
Investment securities	-	5,118	10,275	32,469	60,374	48,133	4,157	160,526
Investments in associates and joint ventures	-	-	-	-	-	-	8,481	8,481
Fixed assets	-	-	-	-	-	-	13,841	13,841
Goodwill and intangible assets	-	-	-	-	-	-	1,918	1,918
Deferred tax assets	-	-	-	-	-	-	1,738	1,738
Other assets	365	9,326	7,110	13,702	632	313	12,188	43,636
Total assets	31,479	143,699	56,005	137,890	250,895	166,713	62,032	848,713
Liabilities								
Deposits and balances of banks	2,919	15,405	15,147	3,320	-	-	-	36,791
Deposits from customers	222,268	101,961	130,028	89,766	8,535	-	-	552,558
- Demand deposits and current accounts	63,932	-	-	-	-	-	-	63,932
- Savings deposits	156,921	-	-	-	-	-	-	156,921
- Time, call and notice deposits	1,415	101,961	130,028	89,766	8,535	-	-	331,705
Trading liabilities	-	-	-	-	-	-	10	10
Derivative liabilities	-	-	-	-	-	-	10,456	10,456
Certificates of deposit issued	-	4,506	15,659	35,691	2,815	-	-	58,671
Current taxation	-	-	-	1,526	-	-	-	1,526
Debt securities issued	-	-	-	-	4,365	-	-	4,365
Deferred tax liabilities	-	-	-	-	-	-	176	176
Other liabilities	830	8,226	7,585	18,641	13,648	5,618	7,769	62,317
- Lease liabilities	2	34	64	257	425	209	-	991
- Other accounts	828	8,192	7,521	18,384	13,223	5,409	7,769	61,326
Loan capital	-	4,656	-	-	10,189	-	-	14,845
Total liabilities	226,017	134,754	168,419	148,944	39,552	5,618	18,411	741,715
Net gap	(194,538)	8,945	(112,414)	(11,054)	211,343	161,095		

31/12/2019

	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets								
Cash and balances with banks	36,001	185	327	687	-	-	14,325	51,525
Placements with and advances to banks	-	46,794	14,101	1,230	155	-	-	62,280
Trade bills	1	4,298	4,702	3,080	-	-	-	12,081
Trading assets	-	-	-	-	56	34	1,183	1,273
Derivative assets	-	-	-	-	-	-	5,693	5,693
Loans and advances to customers	3,893	63,352	29,670	85,762	198,224	123,525	910	505,336
Investment securities	-	10,588	15,444	30,949	64,838	38,686	3,009	163,514
Investments in associates and joint ventures	-	-	-	-	-	-	9,970	9,970
Fixed assets	-	-	-	-	-	-	14,328	14,328
Goodwill and intangible assets	-	-	-	-	-	-	1,926	1,926
Deferred tax assets	-	-	-	-	-	-	1,563	1,563
Other assets	96	7,034	6,655	13,019	1,100	245	7,560	35,709
Total assets	39,991	132,251	70,899	134,727	264,373	162,490	60,467	865,198
Liabilities								
Deposits and balances of banks	2,247	12,133	7,708	5,821	6	-	-	27,915
Deposits from customers	208,421	122,769	146,808	86,254	9,273	-	2	573,527
- Demand deposits and current accounts	66,760	-	-	-	-	-	-	66,760
- Savings deposits	139,742	-	-	-	-	-	-	139,742
- Time, call and notice deposits	1,919	122,769	146,808	86,254	9,273	-	2	367,025
Derivative liabilities	-	-	-	-	-	-	7,654	7,654
Certificates of deposit issued	-	4,073	20,528	49,198	260	-	-	74,059
Current taxation	-	-	-	2,103	-	-	-	2,103
Debt securities issued	-	-	-	156	3,025	-	-	3,181
Deferred tax liabilities	-	-	-	-	-	-	584	584
Other liabilities	891	5,268	8,617	16,153	13,381	5,157	6,832	56,299
- Lease liabilities	1	33	62	254	518	239	-	1,107
- Other accounts	890	5,235	8,555	15,899	12,863	4,918	6,832	55,192
Loan capital	-	-	-	4,699	5,539	-	-	10,238
Total liabilities	211,559	144,243	183,661	164,384	31,484	5,157	15,072	755,560
Net gap	(171,568)	(11,992)	(112,762)	(29,657)	232,889	157,333		

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 st January, 2020	326	111	(1,227)	206	(334)	(61)	(979)
Charged/(Credited) to income statement	18	-	(285)	-	82	(106)	(291)
Credited to reserve	-	(1)	-	(317)	-	(2)	(320)
Exchange and other adjustments	-	-	21	(1)	6	2	28
At 30 th June, 2020	<u>344</u>	<u>110</u>	<u>(1,491)</u>	<u>(112)</u>	<u>(246)</u>	<u>(167)</u>	<u>(1,562)</u>
Balance as at 31 st December, 2019	<u>326</u>	<u>111</u>	<u>(1,227)</u>	<u>206</u>	<u>(334)</u>	<u>(61)</u>	<u>(979)</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:

	<u>30/6/2020</u> HK\$ Mn	<u>31/12/2019</u> HK\$ Mn
Net deferred tax assets recognised on the statement of financial position	(1,738)	(1,563)
Net deferred tax liabilities recognised on the statement of financial position	<u>176</u> <u>(1,562)</u>	<u>584</u> <u>(979)</u>

33. Reserves

	30/6/2020	31/12/2019
	HK\$ Mn	HK\$ Mn
General reserve	13,651	13,651
Revaluation reserve on bank premises	1,849	1,848
Capital reserve	894	1,090
Exchange revaluation reserve	(2,674)	(1,629)
Capital reserve – staff share options issued	148	163
Fair value reserve	655	2,331
Hedging reserve	(1)	1
Liability credit reserve	(16)	(7)
Other reserves	5,115	5,347
Retained profits*	31,548	31,133
	<u>51,169</u>	<u>53,928</u>
Proposed dividends, not provided for	<u>466</u>	<u>1,017</u>

* A regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances and investments in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the HKMA. As at 30th June, 2020, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Bank to shareholders by HK\$1,679 million (31/12/2019: HK\$5,162 million).

34. Additional Equity Instruments

		30/6/2020	31/12/2019
		HK\$ Mn	HK\$ Mn
USD650 million undated non-cumulative subordinated capital securities	(1)	5,016	5,016
USD500 million undated non-cumulative subordinated capital securities	(2)	3,878	3,878
USD650 million undated non-cumulative subordinated capital securities	(3)	5,069	5,069
		<u>13,963</u>	<u>13,963</u>

- (1) On 2nd December, 2015, the Bank issued undated non-cumulative subordinated capital securities (“Additional Tier 1 Capital Securities”) with a face value of US\$650 million (equivalent to HK\$5,016 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.50% p.a. coupon until the first call date on 2nd December, 2020. The coupon will be reset every five years, if the Additional Tier 1 Capital Securities are not redeemed, to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.834% p.a.. The coupon payments may be cancelled at the sole discretion of the Bank. The Additional Tier 1 Capital Securities will be written down if a non-viability event occurs and is continuing. They rank higher than ordinary shares in the event of a winding-up.
- (2) On 18th May, 2017, the Bank issued undated non-cumulative subordinated capital securities (“Additional Tier 1 Capital Securities”) with a face value of US\$500 million (equivalent to HK\$3,878 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.625% p.a. coupon until the first call date on 18th May, 2022. The coupon will be reset every five years, if the Additional Tier 1 Capital Securities are not redeemed, to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.682% p.a.. 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.

- (3) On 19th 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% p.a. coupon until the first call date on 19th 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% p.a.. 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

	30/6/2020 HK\$ Mn	30/6/2019 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	27,771	32,474
Placements with and advances to banks with original maturity within three months	60,419	63,975
Treasury bills with original maturity within three months	4,034	3,995
Certificates of deposit held with original maturity within three months	-	148
Debt securities with original maturity within three months	2,924	763
Add: Cash and balances with banks included in “Assets held for sale”	-	2
	<u>95,148</u>	<u>101,357</u>
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks	40,462	52,823
Placements with and advances to banks	63,990	69,720
Treasury bills, certificates of deposit held and debt securities		
- trading assets	462	2,844
- investment securities	156,009	153,785
	156,471	156,629
Add: Cash and balances with banks included in “Assets held for sale”	-	2
Amount shown in the consolidated statement of financial position	260,923	279,174
Less : Amounts with an original maturity of beyond three months	(153,077)	(157,460)
Cash balance with central bank subject to regulatory restriction	(12,698)	(20,357)
Cash and cash equivalents in the consolidated cash flow statement	<u>95,148</u>	<u>101,357</u>

36. Offsetting Financial Instruments

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

At 30 th June, 2020					
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related financial instruments that are not set off	Net amount
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets					
Derivative assets	65	-	65	(60)	5
Other assets	570	(570)	-	-	-
Total	<u>635</u>	<u>(570)</u>	<u>65</u>	<u>(60)</u>	<u>5</u>

At 30 th June, 2020					
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related financial instruments that are not set off	Net amount
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Liabilities					
Derivative liabilities	69	-	69	(60)	9
Other liabilities	649	(570)	79	-	79
Total	<u>718</u>	<u>(570)</u>	<u>148</u>	<u>(60)</u>	<u>88</u>

At 31st December, 2019

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related financial instruments that are not set off	Net amount
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets					
Derivative assets	35	-	35	(19)	16
Other assets	854	(422)	432	-	432
Total	889	(422)	467	(19)	448

At 31st December, 2019

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related financial instruments that are not set off	Net amount
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Liabilities					
Derivative liabilities	23	-	23	(19)	4
Other liabilities	422	(422)	-	-	-
Total	445	(422)	23	(19)	4

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

	30/6/2020		31/12/2019	
	Derivative assets	Other assets	Derivative assets	Other assets
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Net amount of financial assets after offsetting as stated above	65	-	35	432
Financial assets not in scope of offsetting disclosure	5,572	43,835	5,658	35,472
Impairment allowances	-	(199)	-	(195)
	<u>5,637</u>	<u>43,636</u>	<u>5,693</u>	<u>35,709</u>

	30/6/2020		31/12/2019	
	Derivative liabilities	Other liabilities	Derivative liabilities	Other liabilities
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Net amount of financial liabilities after offsetting as stated above	69	79	23	-
Financial liabilities not in scope of offsetting disclosure	10,387	62,238	7,631	56,299
	<u>10,456</u>	<u>62,317</u>	<u>7,654</u>	<u>56,299</u>

37. 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.

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.

	30/6/2020				31/12/2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Recurring fair value measurement								
Assets								
Trade Bills - At FVOCI	-	10,769	-	10,769	-	11,461	-	11,461
Trading assets	808	462	-	1,270	1,183	90	-	1,273
Derivative assets	93	5,544	-	5,637	-	5,693	-	5,693
Investment securities								
- Mandatorily measured at FVTPL	2,013	7,178	790	9,981	1,445	8,857	278	10,580
- Designated at FVTPL	-	-	-	-	-	446	-	446
- At FVOCI	24,670	108,888	777	134,335	32,971	100,157	1,055	134,183
	<u>27,584</u>	<u>132,841</u>	<u>1,567</u>	<u>161,992</u>	<u>35,599</u>	<u>126,704</u>	<u>1,333</u>	<u>163,636</u>
Liabilities								
Trading liabilities	10	-	-	10	-	-	-	-
Derivative liabilities	64	10,392	-	10,456	-	7,654	-	7,654
Financial liabilities designated at FVTPL	-	22,116	-	22,116	-	30,583	-	30,583
	<u>74</u>	<u>32,508</u>	<u>-</u>	<u>32,582</u>	<u>-</u>	<u>38,237</u>	<u>-</u>	<u>38,237</u>

During the period ended 30th June, 2020 and year ended 31st December, 2019, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about significant unobservable inputs in Level 3 valuations:

	Valuation technique	Significant unobservable input(s)	Value or range
Unlisted equity securities and investment funds	Net asset value	N/A	N/A
	Discounted cash flow model	Discount rate	30/6/2020: 12.0% (2019: 8.6%)
		Marketability discount	30/6/2020: 20% (2019: 20%)
	Market-comparable approach	Earnings multiple	30/6/2020: 31.09 - 33.95 (2019: 29.60 - 34.48)
		EV/EBIT	30/6/2020: 24.76 – 30.91 (2019: 25.19 - 35.68)
Marketability discount		30/6/2020: 50% (2019: 50%)	

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

Valuation of financial instruments in Level 3 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:

	30/6/2020		31/12/2019	
	Investment securities mandatorily measured at FVTPL	Investment securities at FVOCI	Investment securities mandatorily measured at FVTPL	Investment securities at FVOCI
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets				
At 1 st January	278	1,055	309	688
Purchases/Additions	526	-	-	-
Settlements	(2)	-	(19)	(15)
Changes in fair value recognised in the income statement	(12)	-	(12)	-
Changes in fair value recognised in the other comprehensive income	-	(278)	-	382
At 30 th June/31 st December	<u>790</u>	<u>777</u>	<u>278</u>	<u>1,055</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	-	(278)	-	382
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	(12)	-	(12)	-

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

	30/6/2020			
	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	66	(66)	-	-
Investment securities measured at FVOCI	-	-	65	(65)
	<u>66</u>	<u>(66)</u>	<u>65</u>	<u>(65)</u>
	31/12/2019			
	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Financial assets				
Investment securities mandatorily measured at FVTPL	23	(23)	-	-
Investment securities measured at FVOCI	-	-	88	(88)
	<u>23</u>	<u>(23)</u>	<u>88</u>	<u>(88)</u>

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

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

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

- (i) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the end of the reporting period.
- (ii) The fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances from both the carrying amount and fair value.
- (iii) The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.
- (iv) The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services when such information is obtainable, or is otherwise estimated by reference to interest rate differentials 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 30th June, 2020 and 31st December, 2019 except as follows:

	30/6/2020		31/12/2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Financial assets				
Investment securities measured at amortised cost	16,210	16,420	18,305	18,539

38. Credit Risk

The Group adopts the criteria of stage allocation as follows:

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

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

- The exposure has a significant deterioration of internal or external rating as compared with the rating at the time when the exposure was originated; and
- The rating of the exposure falls out of the "Low-Credit Risk Threshold" that is equivalent to the globally understood definition of "investment grade".

a. Credit Quality Analysis

Credit quality of loans and advances

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

	30/6/2020							
	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
Loans and advances to customers at amortised cost								
- Grades 1 - 15: Pass	460,919	818	23,342	106	-	-	484,261	924
- Grades 16 - 17: Special Mention	-	-	10,730	61	-	-	10,730	61
- Grade 18: Substandard	-	-	-	-	3,498	19	3,498	19
- Grade 19: Doubtful	-	-	-	-	2,818	140	2,818	140
- Grade 20: Loss	-	-	-	-	158	3	158	3
Total gross carrying amount	460,919	818	34,072	167	6,474	162	501,465	1,147
Impairment allowances	(876)	(2)	(1,022)	(3)	(3,195)	(21)	(5,093)	(26)
Carrying amount	460,043	816	33,050	164	3,279	141	496,372	1,121

31/12/2019								
12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total		
Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	
HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	
Loans and advances to customers at amortised cost								
- Grades 1 - 15: Pass	477,603	998	14,257	58	-	-	491,860	1,056
- Grades 16 - 17: Special Mention	-	-	11,056	52	-	-	11,056	52
- Grade 18: Substandard	-	-	-	-	4,757	46	4,757	46
- Grade 19: Doubtful	-	-	-	-	1,314	99	1,314	99
- Grade 20: Loss	-	-	-	-	118	5	118	5
Total gross carrying amount	477,603	998	25,313	110	6,189	150	509,105	1,258
Impairment allowances	(501)	(1)	(516)	(2)	(2,752)	(32)	(3,769)	(35)
Carrying amount	477,102	997	24,797	108	3,437	118	505,336	1,223

Credit quality of financial assets other than loans and advances

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

30/6/2020							
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
Trade bills at amortised cost							
- Grades 1 - 15: Pass	70	-	-	-	-	70	-
- Grades 16 - 17: Special Mention	-	-	4	-	-	4	-
- Grade 18: Substandard	-	-	-	-	-	-	-
- Grade 19: Doubtful	-	-	-	-	-	-	-
- Grade 20: Loss	-	-	-	-	-	-	-
Total gross carrying amount	70	-	4	-	-	74	-
Impairment allowances	(1)	-	-	-	-	(1)	-
Carrying amount	69	-	4	-	-	73	-

31/12/2019							
12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Trade bills at amortised cost							
- Grades 1 - 15: Pass	620	4	-	-	-	620	4
- Grades 16 - 17: Special Mention	-	-	-	-	-	-	-
- Grade 18: Substandard	-	-	-	-	-	-	-
- Grade 19: Doubtful	-	-	-	-	-	-	-
- Grade 20: Loss	-	-	-	-	-	-	-
Total gross carrying amount	620	4	-	-	-	620	4
Impairment allowances	-	-	-	-	-	-	-
Carrying amount	620	4	-	-	-	620	4

Trade bills at FVOCI

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

30/6/2020							
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
10,723	-	46	-	-	-	10,769	-
10,723	-	46	-	-	-	10,769	-
(3)	-	-	-	-	-	(3)	-

Trade bills at FVOCI

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

31/12/2019							
12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
10,927	1	534	-	-	-	11,461	1
10,927	1	534	-	-	-	11,461	1
(3)	-	(1)	-	-	-	(4)	-

Placements with and advances to banks

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

30/6/2020							
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
63,992	17	-	-	-	-	63,992	17
63,992	17	-	-	-	-	63,992	17
(2)	-	-	-	-	-	(2)	-
63,990	17	-	-	-	-	63,990	17

Placements with and advances to banks

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

31/12/2019							
12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
62,285	88	-	-	-	-	62,285	88
62,285	88	-	-	-	-	62,285	88
(5)	-	-	-	-	-	(5)	-
62,280	88	-	-	-	-	62,280	88

30/6/2020				
12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	
HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	
Loan commitments				
- Grades 1 - 15: Pass	109,716	4,892	-	114,608
- Grades 16 - 17: Special Mention	-	231	-	231
- Grade 18: Substandard	-	-	14	14
Total	109,716	5,123	14	114,853
Impairment allowances	(68)	(14)	(10)	(92)
Financial guarantee contracts				
- Grades 1 - 15: Pass	11,658	4,254	-	15,912
- Grades 16 - 17: Special Mention	-	335	-	335
- Grade 18: Substandard	-	-	-	-
Total	11,658	4,589	-	16,247
Impairment allowances	(5)	(1)	-	(6)

31/12/2019 (Restated)				
12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	
HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	
Loan commitments				
- Grades 1 - 15: Pass	111,986	1,041	-	113,027
- Grades 16 - 17: Special Mention	-	5,014	-	5,014
- Grade 18: Substandard	-	-	5	5
Total	111,986	6,055	5	118,046
Impairment allowances	(51)	(23)	-	(74)
Financial guarantee contracts				
- Grades 1 - 15: Pass	13,552	822	-	14,374
- Grades 16 - 17: Special Mention	-	45	-	45
Total	13,552	867	-	14,419
Impairment allowances	(5)	(3)	-	(8)

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:

30/6/2020							
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
Debt investment securities measured at amortised cost							
Aaa	-	-	-	-	-	-	-
Aa1 to Aa3	2,921	-	-	-	-	2,921	-
A1 to A3	4,698	71	-	-	-	4,698	71
Baa1 to Baa3	2,335	23	-	-	-	2,335	23
Below Baa3	1,169	20	-	-	-	1,169	20
Unrated	5,180	52	-	-	-	5,180	52
Total gross carrying amount	16,303	166	-	-	-	16,303	166
Impairment allowances	(93)	(1)	-	-	-	(93)	(1)
Carrying amount	16,210	165	-	-	-	16,210	165

31/12/2019							
12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt investment securities measured at amortised cost							
Aaa	-	-	-	-	-	-	-
Aa1 to Aa3	3,078	1	-	-	-	3,078	1
A1 to A3	5,144	78	-	-	-	5,144	78
Baa1 to Baa3	2,703	30	-	-	-	2,703	30
Below Baa3	844	13	804	14	-	1,648	27
Unrated	5,778	65	28	-	-	5,806	65
Total gross carrying amount	17,547	187	832	14	-	18,379	201
Impairment allowances	(73)	(1)	(1)	-	-	(74)	(1)
Carrying amount	17,474	186	831	14	-	18,305	200

30/6/2020							
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
Debt investment securities measured at FVOCI							
Aaa	6,944	9	-	-	-	6,944	9
Aa1 to Aa3	21,327	11	-	-	-	21,327	11
A1 to A3	56,593	705	-	-	-	56,593	705
Baa1 to Baa3	40,943	417	-	-	-	40,943	417
Below Baa3	1,051	13	-	-	-	1,051	13
Unrated	6,670	76	30	-	-	6,700	76
Total carrying amount at fair value	133,528	1,231	30	-	-	133,558	1,231
Impairment allowances	(386)	(4)	-	-	-	(386)	(4)

31/12/2019							
12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt investment securities measured at FVOCI							
Aaa	6,577	8	-	-	-	6,577	8
Aa1 to Aa3	29,487	6	-	-	-	29,487	6
A1 to A3	50,602	714	102	2	-	50,704	716
Baa1 to Baa3	37,326	375	-	-	-	37,326	375
Below Baa3	461	5	505	7	-	966	12
Unrated	7,414	81	654	15	-	8,068	96
Total carrying amount at fair value	131,867	1,189	1,261	24	-	133,128	1,213
Impairment allowances	(282)	(3)	(3)	-	-	(285)	(3)

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

	30/6/2020	31/12/2019
	HK\$ Mn	HK\$ Mn
Debt investment securities		
Aaa	-	-
Aa1 to Aa3	-	1,341
A1 to A3	558	1,061
Baa1 to Baa3	4,945	5,221
Below Baa3	215	-
Unrated	523	918
Total carrying amount at fair value	6,241	8,541

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

	30/6/2020	31/12/2019
	HK\$ Mn	HK\$ Mn
Debt investment securities		
Aaa	-	-
Aa1 to Aa3	-	-
A1 to A3	154	90
Baa1 to Baa3	308	-
Below Baa3	-	-
Unrated	-	-
Total carrying amount at fair value	462	90

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

	30/6/2020	31/12/2019
	HK\$ Mn	HK\$ Mn
Derivative assets		
Aa1 to Aa3	121	92
A1 to A3	2,365	1,937
Baa1 to Baa3	1,367	1,731
Below Baa3	418	347
Unrated	1,366	1,586
Total carrying amount at fair value	5,637	5,693

Cash and balances with banks

The Group held cash and balances with banks of HK\$40,469 million at 30th June, 2020 (31st December, 2019: HK\$51,534 million), of which 96% (31st December, 2019: 96%) of cash and balances with banks counterparties that are rated at investment grade, based on Moody's Investor Services, or equivalent ratings.

b. Impairment Allowances Reconciliation

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

	30/6/2020			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Loans and advances to customers				
Balance at 1 st January	502	518	2,784	3,804
Transfer to 12-month ECL	20	(20)	-	-
Transfer to lifetime ECL not credit-impaired	(14)	16	(2)	-
Transfer to lifetime ECL credit-impaired	(1)	(21)	22	-
New financial assets originated or purchased, assets derecognised, repayments and further lending	288	2	61	351
Write-offs	-	-	(1,237)	(1,237)
Changes in models	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	83	530	1,588	2,201
Balance at 30 th June	<u>878</u>	<u>1,025</u>	<u>3,216</u>	<u>5,119</u>
Of which:				
For advance to customers at amortised cost	876	1,022	3,195	5,093
For related accrued interest receivable	2	3	21	26
	<u>878</u>	<u>1,025</u>	<u>3,216</u>	<u>5,119</u>

	31/12/2019			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Loans and advances to customers				
Balance at 1 st January	432	859	1,252	2,543
Transfer to 12-month ECL	60	(60)	-	-
Transfer to lifetime ECL not credit-impaired	(20)	45	(25)	-
Transfer to lifetime ECL credit-impaired	(49)	(268)	317	-
New financial assets originated or purchased, assets derecognised, repayments and further lending	208	2	640	850
Write-offs	-	-	(5,674)	(5,674)
Changes in models	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	(129)	(60)	6,274	6,085
Balance at 31 st December	<u>502</u>	<u>518</u>	<u>2,784</u>	<u>3,804</u>
Of which:				
For advance to customers at amortised cost	501	516	2,752	3,769
For related accrued interest receivable	1	2	32	35
	<u>502</u>	<u>518</u>	<u>2,784</u>	<u>3,804</u>
	30/6/2020			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt investment securities				
Balance at 1 st 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 lending	110	(4)	-	106
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	15	-	-	15
Balance at 30 th June	<u>484</u>	<u>-</u>	<u>-</u>	<u>484</u>
Of which:				
For debt investment securities measured at amortised cost	93	-	-	93
For related accrued interest receivable	1	-	-	1
	<u>94</u>	<u>-</u>	<u>-</u>	<u>94</u>
For debt investment securities measured at FVOCI	386	-	-	386
For related accrued interest receivable	4	-	-	4
	<u>390</u>	<u>-</u>	<u>-</u>	<u>390</u>

	31/12/2019			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt investment securities				
Balance at 1 st January	354	7	-	361
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit- impaired	-	-	-	-
Transfer to lifetime ECL credit- impaired	-	-	-	-
New financial assets originated or purchased, assets derecognised, repayments and further lending	44	1	-	45
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	(39)	(4)	-	(43)
Balance at 31 st December	<u>359</u>	<u>4</u>	<u>-</u>	<u>363</u>
Of which:				
For debt investment securities measured at amortised cost	73	1	-	74
For related accrued interest receivable	1	-	-	1
	<u>74</u>	<u>1</u>	<u>-</u>	<u>75</u>
For debt investment securities measured at FVOCI	282	3	-	285
For related accrued interest receivable	3	-	-	3
	<u>285</u>	<u>3</u>	<u>-</u>	<u>288</u>

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

	30/6/2020			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Others				
Balance at 1 st January	115	32	112	259
Transfer to 12-month ECL	5	(5)	-	-
Transfer to lifetime ECL not credit- impaired	-	-	-	-
Transfer to lifetime ECL credit- impaired	-	-	-	-
New financial assets originated or purchased, assets derecognised, repayments and further lending	7	(7)	46	46
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	(26)	(5)	9	(22)
Balance at 30 th June	<u>101</u>	<u>15</u>	<u>167</u>	<u>283</u>
Of which:				
For trade bills measured at FVOCI	3	-	-	3
For related accrued interest receivable	-	-	-	-
	<u>3</u>	<u>-</u>	<u>-</u>	<u>3</u>
For trade bills measured at amortised cost	1	-	-	1
For related accrued interest receivable	-	-	-	-
	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
For placements with and advances to banks	2	-	-	2
For related accrued interest receivable	-	-	-	-
	<u>2</u>	<u>-</u>	<u>-</u>	<u>2</u>
For cash and balances with banks	7	-	-	7
For related accrued interest receivable	-	-	-	-
	<u>7</u>	<u>-</u>	<u>-</u>	<u>7</u>
For loan commitments and financial guarantee contracts	<u>73</u>	<u>15</u>	<u>10</u>	<u>98</u>
For account receivables and other accounts	<u>15</u>	<u>-</u>	<u>157</u>	<u>172</u>

	31/12/2019			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Others				
Balance at 1 st January	114	47	68	229
Transfer to 12-month ECL	3	(3)	-	-
Transfer to lifetime ECL not credit- impaired	(1)	1	-	-
Transfer to lifetime ECL credit- impaired	-	-	-	-
New financial assets originated or purchased, assets derecognised, repayments and further lending	5	2	47	54
Write-offs	-	-	(1)	(1)
Changes in models	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	(6)	(15)	(2)	(23)
Balance at 31 st December	<u>115</u>	<u>32</u>	<u>112</u>	<u>259</u>
Of which:				
For trade bills measured at FVOCI	3	1	-	4
For related accrued interest receivable	-	-	-	-
	<u>3</u>	<u>1</u>	<u>-</u>	<u>4</u>
For trade bills measured at amortised cost	-	-	-	-
For related accrued interest receivable	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
For placements with and advances to banks	5	-	-	5
For related accrued interest receivable	-	-	-	-
	<u>5</u>	<u>-</u>	<u>-</u>	<u>5</u>
For cash and balances with banks	9	-	-	9
For related accrued interest receivable	-	-	-	-
	<u>9</u>	<u>-</u>	<u>-</u>	<u>9</u>
For loan commitments and financial guarantee contracts	<u>56</u>	<u>26</u>	<u>-</u>	<u>82</u>
For account receivables and other accounts	<u>42</u>	<u>5</u>	<u>112</u>	<u>159</u>

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

39. Off-balance Sheet Exposures

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

	30/6/2020 HK\$ Mn	31/12/2019 HK\$ Mn
Contractual amounts of contingent liabilities		
Direct credit substitutes	6,528	11,705
Transaction-related contingencies	1,093	1,051
Trade-related contingencies	3,207	2,157
	<u>10,828</u>	<u>14,913</u>
Contractual amounts of commitments		
Commitments that are unconditionally cancellable without prior notice	151,063	148,791
Other commitments with an original maturity		
- up to 1 year	5,930	10,038
- over 1 year	30,980	26,772
	<u>187,973</u>	<u>185,601</u>
Total	<u>198,801</u>	<u>200,514</u>
Credit risk weighted amounts	<u>21,338</u>	<u>23,193</u>
Fair value of derivatives		
Assets		
Exchange rate contracts	1,290	2,887
Interest rate contracts	3,181	2,037
Equity contracts	1,165	767
Others	1	2
	<u>5,637</u>	<u>5,693</u>
Liabilities		
Exchange rate contracts	1,300	3,375
Interest rate contracts	7,974	3,442
Equity contracts	1,167	827
Others	15	10
	<u>10,456</u>	<u>7,654</u>
Notional amounts of derivatives		
Exchange rate contracts	396,922	449,156
Interest rate contracts	412,581	371,674
Equity contracts	16,488	12,214
Others	89	89
	<u>826,080</u>	<u>833,133</u>
Credit risk weighted amounts*		
Exchange rate contracts	1,369	1,743
Interest rate contracts	482	290
Equity contracts	181	58
	<u>2,032</u>	<u>2,091</u>

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

* The Bank adopted the Foundation Internal Ratings Based approach according to Capital Rules for calculating the credit risk weighted amount as at 30th June, 2020 and 31st December, 2019.

(b) Capital commitments

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

	<u>30/6/2020</u> HK\$ Mn	<u>31/12/2019</u> HK\$ Mn
Expenditure authorised and contracted for	277	305
Expenditure authorised but not contracted for	<u>159</u>	<u>177</u>
	<u>436</u>	<u>482</u>

(c) Contingencies

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

40. 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>30/6/2020</u> HK\$ Mn	<u>30/6/2019</u> HK\$ Mn
Short-term employee benefits	67	71
Post-employment benefits	4	3
Equity compensation benefits	<u>2</u>	<u>12</u>
	<u>73</u>	<u>86</u>

(b) The Group maintains certain retirement benefit schemes for its staff. In the six months ended 30th June, 2020, the total amount of contributions the Group made to the schemes was HK\$99 million (six months ended 30th June, 2019: HK\$91 million).

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

The interest received from and interest paid to the Group's related parties for the six months ended 30th June, 2020, outstanding balances of amounts due from and due to them at 30th June, 2020 and maximum outstanding balance of amounts due from and due to them for the six months ended 30th June, 2020 are aggregated as follows:

	Key management personnel		Associates		Shareholders with significant influence	
	30/6/2020	30/6/2019	30/6/2020	30/6/2019	30/6/2020	30/6/2019
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest income	31	28	34	24	-	2
Interest expense	7	25	2	1	-	8
Amounts due from	2,246	2,347	1,440	695	1,208	2,458
Amounts due to	1,003	2,540	451	49	25	972
Maximum amounts due from	3,452	3,730	1,862	1,803	8,102	5,391
Maximum amounts due to	3,481	4,698	619	555	803	2,542
Committed facilities to	1,187	1,370	951	1,313	-	-

41. 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 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.

42. Comparative Figures

Certain 2019 comparative figures have been restated to conform to current period's presentation. Please refer to Consolidated Income statement, Condensed Consolidated Cash Flow Statements, Notes 3, 5, 8,11, 21(b), 30 and 38(a) for the effect of the restatement.

43. 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 20th August, 2020.

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.

44. Assets Held for Sale

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

	30/6/2020	31/12/2019
	HK\$ Mn	HK\$ Mn
Assets held for sale (Note 25)		
Other properties	48	39

SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital Adequacy

	<u>30/6/2020</u> HK\$ Mn	<u>31/12/2019</u> HK\$ Mn
Capital base		
- Common Equity Tier 1 capital	76,716	75,313
- Additional Tier 1 capital	13,963	13,963
- Total Tier 1 capital	<u>90,679</u>	<u>89,276</u>
- Tier 2 capital	12,534	9,349
- Total capital	<u><u>103,213</u></u>	<u><u>98,625</u></u>
Risk weighted assets by risk type		
- Credit risk	425,741	439,676
- Market risk	11,050	13,260
- Operational risk	32,589	34,878
	<u>469,380</u>	<u>487,814</u>
Less: Deductions	<u>(3,187)</u>	<u>(3,619)</u>
	<u><u>466,193</u></u>	<u><u>484,195</u></u>
	<u>30/6/2020</u>	<u>31/12/2019</u>
	%	%
Common Equity Tier 1 capital ratio	16.5	15.6
Tier 1 capital ratio	19.5	18.4
Total capital ratio	22.1	20.4

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

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

The subsidiaries that are included in consolidation for regulatory purposes are listed in Note 41 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 <http://www.hkbea.com> or at the following direct link: www.hkbea.com/regulatory_disclosures.

B. Leverage Ratio

	<u>30/6/2020</u> HK\$ Mn	<u>31/12/2019</u> HK\$ Mn
Total Tier 1 capital	90,679	89,276
Exposure measure	857,730	874,070
	<u>30/6/2020</u> %	<u>31/12/2019</u> %
Leverage ratio	10.6	10.2

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

C. Liquidity Position

Liquidity coverage ratio

	<u>30/6/2020</u> %	<u>31/12/2019</u> %
Average liquidity coverage ratio		
- First quarter	178.1	169.8
- Second quarter	177.7	171.7
- Third quarter	N/A	166.9
- Fourth quarter	N/A	175.7

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

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

Net stable funding ratio

	<u>30/6/2020</u> HK\$ Mn	<u>31/12/2019</u> HK\$ Mn
Total available stable funding	512,156	525,048
Total required stable funding	445,902	464,523
	<u>30/6/2020</u> %	<u>31/12/2019</u> %
Net stable funding ratio	114.9	113.0

The net stable funding ratio is calculated in accordance with the Banking (Liquidity) Rules effective from 1st 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 or at the following direct link: www.hkbea.com/regulatory_disclosures.

D. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

	30/6/2020		31/12/2019	
	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	776	0.1	1,049	0.2
- 1 year or less but over 6 months	1,829	0.4	308	0.1
- Over 1 year	837	0.2	747	0.1
	<u>3,442</u>	<u>0.7</u>	<u>2,104</u>	<u>0.4</u>
Rescheduled advances to customers	510	0.1	163	0.0
Total overdue and rescheduled advances	<u>3,952</u>	<u>0.8</u>	<u>2,267</u>	<u>0.4</u>
Covered portion of overdue advances	<u>2,477</u>	<u>0.5</u>	<u>1,408</u>	<u>0.3</u>
Uncovered portion of overdue advances	<u>965</u>	<u>0.2</u>	<u>696</u>	<u>0.1</u>
Current market value of collateral held against the covered portion of overdue advances	<u>6,892</u>		<u>2,876</u>	
Specific provisions made on advances overdue for more than 3 months	<u>1,987</u>		<u>1,190</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

(b) Advances to banks

	30/6/2020	31/12/2019
	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

	30/6/2020		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	5	-	-
- 1 year or less but over 6 months	46	-	-
- Over 1 year	95	-	-
	146	-	-
Rescheduled assets	11	-	-
Total other overdue and rescheduled assets	157	-	-
	31/12/2019		
	Accrued Interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	16	-	-
- 1 year or less but over 6 months	9	-	-
- Over 1 year	89	-	-
	114	-	-
Rescheduled assets	1	-	-
Total other overdue and rescheduled assets	115	-	-

* Other assets refer to trade bills and receivables.

(d) Repossessed assets

	30/6/2020	31/12/2019
	HK\$ Mn	HK\$ Mn
Reposessed land and buildings*	249	225
Reposessed vehicles and equipment	33	-
Reposessed machines	-	-
Total reposessed assets	282	225

The amount represents the estimated market value of the reposessed assets as at 30th June, 2020 and 31st December, 2019.

* The balance included HK\$74 million (31/12/2019: HK\$4 million) relating to properties that were contracted for sale but not yet completed.

E. Banking Disclosure Statement

Additional information disclosures for this period which are prepared in accordance with the Banking (Disclosure) Rules, 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 or at the following direct link: www.hkbea.com/regulatory_disclosures.

INTERIM DIVIDEND

The Board is pleased to declare an interim dividend of HK\$0.16 per share (the “2020 Interim Dividend”) (2019 Interim Dividend: HK\$0.11 per share) for the six months ended 30th June, 2020. The 2020 Interim Dividend will be paid in cash with an option to receive new, fully paid Shares in lieu of cash (the “Scrip Dividend Scheme”), to shareholders whose names appear on the Register of Members of the Bank at the close of business on Tuesday, 8th September, 2020. For the purpose of calculating the number of new Shares to be allotted under the Scrip Dividend Scheme, the market value of the new Shares means 95% of the average closing price of the Shares on the Stock Exchange from Thursday, 3rd September, 2020 (being the first day that the Shares were traded ex-dividend) to Wednesday, 9th September, 2020 (both days inclusive). Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Tuesday, 8th September, 2020. 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 Wednesday, 30th September, 2020.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed on Monday, 7th September, 2020 and Tuesday, 8th September, 2020. In order to qualify for the 2020 Interim Dividend, all transfer documents should be lodged for registration with Tricor Standard Limited, Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, by 4:00 p.m. on Friday, 4th September, 2020.

FINANCIAL REVIEW

Financial Performance

For the first six months of 2020, The Bank of East Asia, Limited (“the Bank” or “BEA”) and its subsidiaries (collectively “BEA Group”, “the Bank Group” or “the Group”) earned a profit attributable to owners of the parent of HK\$1,532 million, representing an increase of HK\$532 million or 53.2%, compared with the HK\$1,000 million earned in the same period in 2019. Pre-provision operating profit of the Group was down by HK\$1,159 million, or 21.9%, to HK\$4,124 million. The increase in attributable profit was mainly due to a significant decrease in impairment losses in Mainland China.

Basic earnings per share were HK\$0.39 in the first half of 2020, compared to HK\$0.22 for the corresponding period in 2019.

Annualised return on average assets and annualised return on average equity stood at 0.3% and 2.5%, respectively, compared to 0.1% and 1.4% in the first half of 2019.

Net interest income (“NII”) for the Group decreased by HK\$1,309 million, or 17.6%, to HK\$6,114 million. Net interest margin (“NIM”) decreased from 1.90% to 1.59%, and average interest earning assets fell by 1.7%.

Net fee and commission income rose by HK\$81 million, or 6.0%, to HK\$1,435 million. Net commission income from loans, overdrafts and guarantees, securities and brokerage and investment products grew, while net commission income from trade finance and trust and other fiduciary activities decreased.

Taken together, net trading and hedging results and net results from other financial instruments fell by HK\$245 million to HK\$420 million. Net insurance profit was down by HK\$306 million. The declines were mainly due to unfavourable mark-to-market valuations on financial instruments. Overall, non-interest income fell by 15.1% to HK\$2,360 million. Total operating income decreased by 16.9% to HK\$8,474 million.

Total operating expenses fell by 11.6% to HK\$4,350 million, mainly attributable to declines in staff costs and expenses incurred for credit card and online retail lending businesses in China. Given that operating income decreased by HK\$1,727 million, or 16.9%, the cost-to-income ratio for the first half of 2020 was 51.3% versus 48.2% in the first half of 2019.

Operating profit before impairment losses stood at HK\$4,124 million, a decrease of HK\$1,159 million, or 21.9%, when compared with the corresponding period in 2019.

The net charge for impairment losses on financial instruments fell sharply from HK\$5,063 million in 2019, to HK\$2,675 million in 2020, mainly due to a reduction in impairment losses recorded by Mainland China operations. The Group's impaired loan ratio rose from 1.22% at the end of December 2019 to 1.29% at the end of June 2020. The impaired loan ratio for Hong Kong operations rose from 0.25% to 0.46%, while that for Mainland China operations rose from 3.80% to 3.91%. In addition, there was an impairment loss of HK\$220 million on the Group's interest in an associate operating in Malaysia in the first half of 2020.

Operating profit after impairment losses amounted to HK\$1,222 million, an increase of HK\$1,002 million, or 455.0%.

Net profit on sale of assets held for sale decreased by HK\$80 million, or 97.9%. A profit of HK\$105 million on the disposal of properties in Hong Kong was recorded in the first half of 2019 that was not repeated. Net profit on sale of subsidiaries and associates increased by HK\$347 million, mainly due to a profit of HK\$349 million on the disposal and reclassification of the Group's 21% interest in Prasac Microfinance Institution Limited in Cambodia in the first half of 2020. The valuation on investment properties recorded a net loss of HK\$130 million.

The Group shared after-tax profits from associates and joint ventures of HK\$190 million, a decrease of HK\$138 million, or 42.1% compared to the same period in 2019. The decrease was partially due to the aforementioned disposal and reclassification of Prasac Microfinance Institution Limited in the first half of 2020.

After accounting for income taxes, profit after taxation increased to HK\$1,558 million, an increase of 50.1% compared to the HK\$1,038 million recorded in the first half of 2019.

Financial Position

Total consolidated assets of the Group stood at HK\$848,713 million at the end of June 2020, a decrease of 1.9% compared to HK\$865,198 million at the end of 2019.

Gross advances to customers fell by 1.5% to HK\$501,465 million, while trade bills negotiated declined by 10.2% to HK\$10,843 million.

Total equity attributable to owners of the parent declined to HK\$92,697 million, a fall of 2.7%, mainly due to the adverse movement on the fair value of investment securities measured at fair value through other comprehensive income and foreign exchange positions. The decline was partially offset by the net profit of HK\$1,532 million earned during the first six months of 2020.

Total deposits from customers decreased by 3.7% to HK\$552,558 million. Of the total, demand deposits and current account balances decreased by HK\$2,828 million, or 4.2%; savings deposits increased by HK\$17,179 million, or 12.3%; and time deposits decreased by HK\$35,320 million, or 9.6%. Total deposit funds, comprising deposits from customers and all certificates of deposit issued, decreased by 5.6% to HK\$611,229 million.

The loan-to-deposit ratio stood at 82.0% at the end of June 2020, compared to 78.6% at the end of 2019.

As at 30th June, 2020, the total capital ratio, tier 1 capital ratio, and common equity tier 1 capital ratio were 22.1%, 19.5%, and 16.5%, respectively. The average liquidity coverage ratio for the quarter ended 30th June, 2020 was 177.7%, which was well above the statutory minimum of 100%.

BUSINESS REVIEW

The first major global pandemic in a century – COVID-19 – has caused unpredictable global havoc and had unforeseeable economic consequences worldwide. Government-instituted lockdowns, severe restrictions on travel, strains on health services, and disruptions to business and economic activities have led to unprecedented job losses in much of the world. To encourage companies to retain workers and keep economies afloat, governments and central banks around the globe launched sizable monetary and fiscal stimuli.

Hong Kong's domestic economy was hit hard by the pandemic. In the first half of 2020, tourist arrivals dropped 89.9% year-on-year; retail sales plunged by an annualised rate of 33.3%; and exports slid by 6.9%. Facing both internal and external stress, the economy contracted by 9.1%. Unemployment surged to 6.2% in June. Bucking the trend due to ultra-low interest rates and supply shortages, property prices rose by a modest 1.8% during the first half of the year.

In the short term, the various support measures provided by the Hong Kong government may mitigate and delay the pandemic's impact on companies and individuals. For the longer term, economic performance will depend on the development of the pandemic. The Bank expects a rise in business downsizing and closures in the coming months, pushing unemployment higher. This will, in turn, put further pressure on consumer spending. The Bank expects Hong Kong's gross domestic product ("GDP") to contract by 6.2% in 2020, and inflation to soften to 1.3%.

On the Mainland, due to weak external demand, exports fell by 6.2% year-on-year in the first half of 2020. Meanwhile, domestic retail sales contracted by 11.4% as compared to the same period in 2019.

To stabilise the economy, the Central Government has launched a series of fiscal and monetary stimulus measures, including acceleration of infrastructure projects and financing programmes that assist small and medium-sized companies.

Looking ahead, although the Mainland economy has resumed positive growth, it will take time for consumer confidence to recover. Furthermore, external demand will remain weak, as global economies are still struggling to cope with the adverse impact of the pandemic. Mainland economic growth is expected to decelerate to around 1.9% for 2020. Inflation will slow to 2.8%.

COVID-19 Response

The Bank acted quickly to protect customers and staff while maintaining business continuity under the COVID-19 outbreak.

In Hong Kong, the Bank's emergency response protocol for infectious disease was implemented at the end of January. A number of measures were taken to minimise the risk of infection, including the temporary closure of approximately one third of the branch network, split-team operations, work-from-home arrangements and procurement of sanitary items and protective equipment. These measures have been effective, with no confirmed cases of infection among the Bank's staff.

BEA has also supported local businesses. The Bank launched its first wave of relief measures – including principal moratoriums, loan tenor extensions and temporary conversion of unutilised trade facilities to overdrafts – in early February. Since then, the Bank has given its full support to government initiatives for personal and corporate customers, such as principal payment holidays and the 100% SME Financing Guarantee Scheme.

BEA China cared for the residents and businesses of Hubei province, the centre of the COVID-19 outbreak, by providing service fee exemptions to enterprises and individuals in the province. Furthermore, in accordance with national and regulatory directives, the Bank offered extensions to payment deadlines for enterprises and individual customers most directly and severely affected by the pandemic.

Strategic Priorities

The COVID-19 outbreak has heightened several key challenges facing the banking industry as a whole. In response, the Bank's immediate focus has been to stabilise operations, maintain resilience and develop the competencies required for future success.

First, the outbreak has accelerated the adoption of digital channels. BEA has long recognised the importance of digital technology, and provided convenient access to services through its online and mobile platform. This was particularly important when certain branch services had to be suspended. To ensure BEA remains at the forefront of the industry, the Bank's newly established Digital & Innovation Office is spearheading digital banking development and upgrading data analytics capabilities to enable customised solutions. Initiatives are focused on three areas: enhancing customer experience by increasing the range of easy-to-use digital services; improving data science and governance capabilities by upgrading the Bank's digital infrastructure; and enriching the Bank's ecosystem by expanding open banking partnerships.

Sustained public lockdowns have seen a drastic decline in consumption. With the resultant loss in revenue and rise in unemployment, certain businesses and individuals are facing increasing difficulty in repaying their debt. While the Bank has supported its clients, as noted above, continued efforts have been made to proactively manage asset quality. Various stress testing and scenario planning exercises have been undertaken to tighten risk management, and lending exposure to clients in affected industries has been closely monitored.

Meanwhile, central banks worldwide have cut interest rates to stimulate economic growth, resulting in strong NIM compression. In Hong Kong, interbank rates have trended downwards significantly following substantial cuts to the US federal funds target rate in March. As a result, loan yields and contribution from net free funds have declined, while funding costs have remained high due to competition for deposits. Margins have also narrowed in China following rate cuts and liquidity injections from the People's Bank of China ("PBOC").

In this difficult operating environment, BEA is transitioning towards a more asset-light business model with a greater focus on fee income. Capabilities are being upgraded in areas including wealth management, transaction banking, trade finance and hedging solutions to generate more fee-based revenue. Meanwhile, the Bank is actively absorbing low-cost current and savings account ("CASA") balances across all business units to reduce funding costs.

At the same time, concerted efforts are being made to control operating expenses and enhance productivity. The Bank is refining its service delivery model to enable paperless, straight-through processing wherever possible. Options are being explored to further rationalise the branch network, as well as deploying new regulatory technology to reduce compliance costs. Together, these efforts will reduce manual tasks and enable staff to focus on client-facing activities. The Bank continues to ensure that its staff have the right tools, skills and incentives to drive sales performance.

In March 2020, the Bank announced that it would conduct a strategic review of its portfolio of businesses and assets, to ensure alignment with its strategic priorities and increase shareholder value. Since then, good progress has been made with the Bank's financial advisor, Goldman Sachs. An update regarding the status of the review is scheduled to be announced by 30th September, 2020.

Business – Hong Kong

In the six months to 30th June, 2020, BEA's customer loans in Hong Kong increased by 0.8% to HK\$292,256 million. Total deposits dropped by 4.2% to HK\$411,062 million, while debt investments declined by 2.7% to HK\$120,266 million.

Profit before tax for Hong Kong operations declined to HK\$1,414 million, as the effects of the COVID-19 outbreak were felt in the following three areas.

Firstly, higher provisions for downgraded loans and updates to economic variables in the Bank's expected credit loss ("ECL") model resulted in a significant increase in impairment losses compared to the subdued level seen for the same period in 2019.

Secondly, the aforementioned NIM compression resulted in a drop in NII to HK\$3,104 million.

Thirdly, financial market movements led to mark-to-market revaluation losses on the debt and equity securities portfolios of the Bank and its insurance subsidiaries. As a result, non-interest income declined to HK\$1,648 million.

Due to the above factors, operating income fell to HK\$4,752 million. Nevertheless, operating expenses were well contained. The Bank will maintain a cautious stance in Hong Kong in the second half of 2020, prioritising operational resilience and productivity.

Corporate & Commercial Banking

Operating circumstances for Corporate Banking were extremely challenging due to the impact COVID-19 has had on the economy and businesses. Before impairment, operating income rose by 6.9% year-on-year with growth in NII while double-digit growth was recorded in non-interest income.

Local loan demand weakened as business activity declined. With higher liquidity on the Mainland, there was also lower demand for cross-border lending. The Bank focussed on providing relief to customers, and was cautious in taking on new loan business. Overall, the corporate loan book saw a low single-digit increase.

The rise in non-interest income was driven by successfully expanding fee-generating business. Account opening and credit-related handling fees rose notably. The Bank's focus on mid-cap companies resulted in higher commission from sales of hedging, insurance and other wealth management products.

However, net profit was impacted by higher impairment losses, as explained earlier. The Bank will maintain a prudent approach to lending, while working with clients to resolve problem loans and uphold asset quality. Meanwhile, sector-specific solutions are being developed to identify pain points across value chains and provide holistic solutions, with promising initial results.

Retail Banking

Operating income for the Bank's retail operations declined by 4.4% year-on-year. A drop in NII was partly offset by growth in non-interest income, driven by higher fees from retail wealth management.

To mitigate the pressure on NIM, the Bank kept a tight control on deposit pricing and continued to bring in CASA deposits from existing and new-to-bank clients to maintain a healthy deposit portfolio. The retail CASA ratio improved to 45.6%. The loan portfolio was held at a stable level, with a continued focus on higher-yield lending products.

Meanwhile, retail wealth income recorded growth of 12.5% year-on-year. A slow market for investment products was offset by strong commission income from insurance sales, with the product mix re-balanced towards long-term life products. The Bank has enhanced wealth management services for affluent clients in order to drive new fee income opportunities. The relationship management team has been strengthened, supported by a diversified product suite and an improved value proposition.

Retail operations were affected by COVID-19 as temporary branch closures and community social distancing measures hindered customer acquisition and engagement. Access to services was maintained via the Bank's online and mobile platforms, which offer comprehensive wealth management solutions and a full range of daily banking services. Use of digital services picked up significantly during the period under review. Financial transactions via online and mobile channels increased by 22.2% year-on-year. In particular, investment transactions rose by 68.5%.

The Bank made headway in its acquisition strategy to drive growth in targeted segments. The affluent and emerging affluent customer bases grew by 13.4% and 9.9% respectively year-on-year. BEA launched a new campaign featuring the SupremeGold all-in-one account in May, with enhanced features including access to mortgage services in the United Kingdom ("UK") and Greater Bay Area ("GBA").

Asset quality for retail operations remains sound. In particular, with low loan-to-value and debt servicing ratios, BEA's retail mortgage portfolio is secure. Nevertheless, net profit from retail operations was lower due to the significant drag on NII. The Bank shall continue to differentiate its services by offering unique propositions for target segments to drive acquisition and revenue growth.

Wealth Management

Private Banking's assets under management ("AUM") and loan portfolio were impacted by market movements during the first half of the year, as clients generally sought to deleverage and reduce their investment positions.

With a high trading volume, revenue from stock broking improved significantly year-on-year. Double digit growth in non-interest income offset a decline in NII. Overall, operating income was flat.

In this period of extreme volatility, relationship managers worked closely with clients to review portfolios and suggest wealth management and asset protection solutions. Even at the height of the crisis, there was no significant deterioration in asset quality or shortfall in clients' margin positions.

Particular focus was placed on communicating and maintaining relationships with Mainland clients via digital channels, in order to mitigate the impact of the COVID-19 travel restrictions. Customers were receptive to these approaches. Income from Mainland clients – particularly those in the GBA – increased year-on-year.

With strong government fiscal and monetary stimulus and much of the world emerging from lockdown, market sentiment is expected to continue to improve in the second half of the year, although volatility will remain. The Bank will advance thematic investment strategies to assist clients in taking advantage of these market trends. BEA aims to expand AUM, acquire new clients and deepen wallet share over the remainder of 2020.

In order to achieve this goal, the Bank will continue to invest in the capacity and capability of its relationship managers while at the same time upgrading the skillsets and productivity of frontline staff. To further strengthen the Bank's product capabilities and better serve clients, the Bank is streamlining processes in order to accelerate approval of new products while meeting all compliance requirements.

Insurance & MPF Services

Excluding mark-to-market revaluations and release of policy reserves, profit from BEA's core insurance business grew by 39.4% year-on-year, reflecting strong underwriting results. Significant market movements led to losses in the debt and equity portfolios of the Bank's insurance subsidiaries. Net insurance profit, which is susceptible to market volatility, was impacted as a result.

BEA Life Limited, the Bank's wholly-owned life insurance arm ("BEA Life"), shifted focus to long-term products which have a smaller average case size but contribute higher business margins. The Bank's commission income from sales of BEA Life products increased by 49.2%, despite a drop in new premium income. BEA Life will continue to improve its insurance product mix to cater to policyholder needs while optimising returns for the Bank.

Blue Cross (Asia-Pacific) Insurance Limited, BEA's wholly-owned general insurance arm ("Blue Cross"), maintained its robust market share in Hong Kong during the period under review. Underwriting profit almost doubled year-on-year due to a marked improvement in medical claims ratios. Premium income was lower following a decline in demand for travel insurance due to COVID-19 travel restrictions. However, group medical insurance performed well, with strong demand for renewals.

To further strengthen its digital platform, Blue Cross launched a 24/7 chatbot via its mobile app and corporate website in December 2019. After six months of operation, the chatbot accounted for 20% of all customer enquiries. Around one third of chatbot enquiries were made outside of office hours, demonstrating the added convenience of this function.

Total membership of BEA's Mandatory Provident Fund ("MPF") schemes grew to 829,000 at the end of June 2020, while AUM stood at HK\$27.8 billion. Lower contributions were received under the three BEA MPF schemes, particularly the Industry Scheme, as sectors including construction and catering services experienced underemployment and business closures. BEA has actively promoted the convenience of its digital MPF service channels to both employers and employees, and recorded a 26% upturn in digital usage during the period under review.

Business – Mainland China

Mainland China took decisive actions to contain the COVID-19 outbreak, introducing various lockdown measures. While the outbreak was quickly brought under control, economic activity suffered. The Mainland's GDP shrank by 1.6% year-on-year in the first half of 2020. Retail sales fell by 11.4%, investment by 3.1% and exports by 3.2%.

Export performance was further hampered by the continuing impact of US tariffs on goods from Mainland China, most of which remain in place despite the signing of the first-phase trade agreement between the two sides in January 2020.

The bold measures taken to contain COVID-19 had an impact on the performance of BEA China in the first half of the year. Some customers of BEA have experienced a drop in business and lower financing appetite, nevertheless pre-provision operating profit for BEA China remains stable at HK\$1,098 million. Amid the worsening credit and business environment, the tightened de-risking measures in place since last year allowed the Bank to lower its credit cost to 2.75%, an improvement on a half-on-half basis.

The total loan balance for BEA China stood at HK\$119,397 million as at 30th June, 2020. NIM narrowed by 22 basis points, as the PBOC continuously lowered Loan Prime Rates during first half of 2020. With a more constrained loan balance and a suppressed NIM, NII for the first half of 2020 fell by 18.6% half-on-half. Meanwhile, customer deposits were managed lower to HK\$133,787 million by 30th June 2020.

As of June 2020, the impaired loan ratio of BEA China remains at an elevated level at 3.92%. This high non-performing loan ("NPL") ratio is mainly a result of delayed recovery efforts due to COVID-19 rather than new NPL formation.

BEA China further diversified its income portfolios by strengthening cross-selling and business referrals. Accordingly, its non-interest income remains steady at HK\$576 million, contributing over 20% of total operating income.

Thanks to effective cost management, underlying operating expenses at BEA China for the first half of 2020 decreased to HK\$1,535 million. This figure has continuously trended downwards since 2019. The cost-to-income ratio fell to 58.3%, resulting in positive operating jaws.

BEA China intensified its network repositioning in the first half of 2020, with five sub-branches merging with other outlets. At the end of June 2020, BEA China operated 31 branches and 61 sub-branches in 43 cities across the country – still one of the most extensive networks of any foreign bank on the Mainland.

The outlook for the Mainland economy at mid-year is considerably worse than that at the start of the year and the impact of COVID-19 on economic activity is still being evaluated. BEA China will continue to actively manage its asset quality in this challenging macro environment.

Building on the successful retail transformation over the past few years, retail business contributions to BEA China's loan portfolio and non-interest income reached 29% and 38% respectively during the first half of this year. Going forward, BEA China will deepen its partnerships with leading internet platforms and focus on cross-selling opportunities within its extensive retail customer base. As part of this strategy, BEA China will accelerate its digital transformation and service and product offerings. An area of focus will be the GBA, where the Bank's extensive onshore and offshore presence is well positioned to capture new opportunities stemming from cross-border mortgage as well as the impending Wealth Management Connect.

As for corporate banking, BEA China is well prepared to help its clients fulfil their needs through transactional banking services, lending products and cross-border solutions. Furthermore, BEA China will expand its investment banking services in syndicated loan originations, debt capital markets, and sales of treasury products in order to continue its fee income momentum and capture more operating cash flow from its clients.

Business – International, Macau and Taiwan

In the first half of 2020, the Bank's overseas operations endured unprecedented adverse market conditions and substantial economic uncertainties arising from COVID-19. To help the local community weather this challenging period and facilitate the implementation of various government relief measures, BEA's overseas branches launched a series of debt relief programmes and support measures for the Bank's customers.

During the period under review, BEA's overseas branches remained prudent about onboarding new business and continued to exit problematic relationships. Overall, the Bank's overseas operations still managed to achieve a modest growth of 2.2% in loans as compared to the end of 2019.

BEA's overseas branches recorded an 11.4% year-on-year decrease in pre-provision operating profit. This was mainly due to the NIM compression for interest bearing assets resulting from interest rate cuts by the US Federal Reserve Board and the Bank of England, as well as the depreciation of the Pound Sterling ("GPB") and Singapore Dollar ("SGD") against the Hong Kong Dollar ("HKD") over the reporting period.

Net profit after tax dropped 52.7% year-on-year, mainly attributable to a spike in impairment loss allowance, which was triggered by the economic repercussions of COVID-19. In spite of the unstable business environment, asset quality of the Bank's overseas branches remained sound and their impaired loan ratio improved to 0.49% as at 30th June, 2020 from 0.54% as at the end of last year.

Despite the continued surge in risk and compliance costs, BEA's overseas operations managed their expenses tightly, registering a slight reduction of 0.8% in operating expenses. For the first half of 2020, the cost-to-income ratio increased to 37.2% from 34.6% for the same period last year on the back of a decrease in total operating income.

Looking ahead, the Bank's overseas operations will face various challenges amidst the ongoing impact of the coronavirus pandemic, growing geopolitical tensions, and lingering Brexit issues. All branches will continue to maintain a prudent stance, optimise their loan portfolios to balance risk and return, and help customers prosper when the economy recovers.

Last but not least, BEA's overseas operations will step up their efforts to rationalise physical branch networks, streamline operating procedures, and automate processes in order to enhance efficiency and further control costs.

BEA Union Investment Management Limited

In the first half of 2020, BEA Union Investment launched the first actively managed Securities and Futures Commission-authorized public fund under the Open-ended Fund Company structure in Hong Kong, the BU APAC Bond Fund. The fund is positioned to offer BEA Union Investment's competence in Asian investment grade bonds to institutional investors wanting to capture income opportunities at a lower risk.

In response to the continued demand from retail investors for Asian bond funds with a fixed investment tenor, the Asian Corporate Target Maturity Fund 2023 was reopened for subscription in May 2020.

Looking ahead, the company's wholly-owned subsidiary, BEA Union Investment Management (Shenzhen) Limited, will launch its first private fund catering to Mainland professional investors in the second half of the year.

Our People

As of 30th June, 2020, the BEA Group employed 9,670 people:

	As of 30 th June, 2020	As of 31 st December, 2019	As of 30 th June, 2019 (restated)
Hong Kong	5,560	5,564	5,446
Mainland China	3,511	3,681	3,833
Macau & Taiwan	154	158	161
Overseas	445	443	439
Total	9,670	9,846	9,879

With effect from 1st July, 2019, Credit Gain group of companies should have been re-classified from Hong Kong Operations to Mainland China Operations. As such, the headcount figures of 30th June, 2019 have been restated for comparison purposes.

In support of the government's initiative to help companies retain their employees in the face of COVID-19 and contribute positively toward the recovery of Hong Kong's economy, the Bank and its subsidiaries in Hong Kong have applied for a grant under the Employment Support Scheme, showing the Bank's commitment to its staff during the recession. The Bank will continue to fill positions and hire new staff, and invest in training and development in order to ensure that it is ready to meet the evolving needs of its customers now and in the future.

In early 2020, the Bank implemented a revised performance management and reward mechanism to foster a performance-driven culture that is aligned with the Bank's core values, namely excellence, integrity, commitment, customer focus, teamwork and innovation. Division and department scorecards and rewards are now more closely tied to the Group's financial and non-financial performance, with an enhanced modifier to reflect the departments' risk and compliance performance.

The Bank also rolled out a new talent development programme aimed at grooming mid-career high-potential staff members into future leaders. The programme provides a series of structured development interventions that support growth and career development, including on-the-job development, coaching and mentoring, and leadership training. The Bank also continued to develop young talent through various graduate development programmes, including the bank-wide Management Trainee Programme and several business-specific functional trainee programmes.

To promote the continuous professional development of staff in general, the Bank supported staff members in their pursuit of professional qualifications as guided by the Hong Kong Monetary Authority's ("HKMA") Enhanced Competency Framework. BEA also invested in a wide spectrum of training, ranging from technical know-how to soft skills training.

Outlook

Globally, a potent cocktail of COVID-19 and escalating political tensions has thrown economic growth into reverse. With the coronavirus still raging, a rapid V-shaped global recovery is looking increasingly unlikely.

The picture appears somewhat brighter in BEA's core markets. Mainland China was the first to lock down in response to the virus, but also the first to reopen. Although it has quickly returned to modest growth, the recovery is fragile and at risk of losing steam unless core export markets recover. Hong Kong has managed to avoid a complete lockdown – so far. The market is cautiously optimistic that economic activity in the region will improve in the second half of the year.

The Bank continues to see good prospects for long-term business growth in Greater China, and particularly in the GBA. As companies diversify their production lines across Asia, BEA has provided banking facilities and other services to help them repurpose their GBA premises. The Bank has also supported start-ups as they scale up for growth opportunities in the region.

Schemes such as Wealth Management Connect will further develop the market for wealth management and retirement planning services in the GBA. In anticipation of further integration, the Bank has strengthened its cross-boundary relationship management team and introduced technologies such as remote account opening. BEA will continue to cater to customers' needs for banking and financial solutions across the GBA, while providing global support through its overseas network and strategic partnerships.

RISK MANAGEMENT

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

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

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

The Group has implemented an ERM framework to identify and manage potential risks in a holistic and effective manner. As BEA is designated as a Domestic Systemically Important Bank, the HKMA requires that the risk management of the Group achieves the high standard demanded by such designation. The ERM framework assists the Group in meeting this requirement, and reinforces the "Three Lines of Defence" risk management model.

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

- The first line of defence comprises the Risk Owners, who are heads of business units or support units of the Bank Group, together with staff under their management. They are primarily responsible for the day-to-day risk management of their units, including establishing and executing specific risk control mechanisms and detailed procedures.
- The second line of defence consists of the Risk Controllers who are designated staff responsible for setting out a risk management governance framework, monitoring risks independently and supporting the management committees in their oversight of risk management for the Bank Group.
- The third line of defence is the Internal Audit Division, which is responsible for providing assurance as to the effectiveness of the Group's risk management framework, including risk governance arrangements.

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

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

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

a) *Credit risk management*

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

The Credit Committee with authority delegation from the Board is responsible for managing all credit risk-related issues of the Group, while the Credit Risk Management Department under the Risk Management Division of the Group executes daily activities relating to policy formulation, assessment, controls & monitoring, MIS, and problem credit management according to the mandate and above all, prevailing credit policies of the Bank and statutory requirements. The Group identifies and manages credit risk by defining the target market segment, formulating appropriate credit policies, and carrying out credit assessment and monitoring of asset quality. Credit risk control limits are set for different levels. Risk, return, and market situation are considered when setting all limits. Active limit monitoring is undertaken.

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

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

b) Market risk management

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

The Asset and Liability Management Committee deals with all market-risk related issues of the Group. It is also responsible for conducting a regular review of interest rate trends and deciding the corresponding future business strategy. Market risk is managed daily by the Treasury Markets Division of the Group within the limits approved by the Board or the Asset and Liability Management Committee. The Asset & Liability Management Department under the Risk Management Division of the Group is responsible for monitoring activities relating to market risk. The Internal Audit Division performs periodic reviews to ensure that the market risk management functions are performed effectively.

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

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

i. Currency risk

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

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

ii. Interest rate risk in trading book

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

iii. Equity risk

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

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

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

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

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

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

Value-at-risk statistics

	2020 – First Half			
	<u>At 30th June</u> HKD Mn	<u>Maximum</u> HKD Mn	<u>Minimum</u> HKD Mn	<u>Mean</u> HKD Mn
VaR for total trading activities	30	32	23	28
VaR for foreign exchange trading positions*	6	8	5	6
VaR for interest rate trading positions	1	4	1	2
VaR for equity trading positions	25	26	18	22

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

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

The average daily profit for all trading activities (including foreign exchange, interest rate, and equity trading activities) for the first six months of 2020 was HKD1.19 million (average daily profit of HKD2.74 million for the first six months of 2019). The standard deviation of the daily profit/loss for the period was HKD10.33 million (standard deviation of HKD8.44 million for the same period in 2019).

c) Operational risk management

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

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

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

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

d) *Liquidity risk management*

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

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

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

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

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

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

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

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

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

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

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

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

Certificates of Deposit, Debt Securities Issued, and Loan Capital

In the first half of 2020, BEA issued floating rate certificates of deposit and debt securities with a face value of USD590 million; fixed rate certificates of deposit and debt securities with a face value of HKD3,740 million and USD995 million; and zero coupon certificates of deposit and debt securities with a face value of HKD3,505 million, USD1,975 million, CNY9,000 million, GBP269 million and CHF30 million. The Group redeemed a quantity of certificates of deposit and debt securities amounting to HKD63,083 million equivalent upon maturity.

At the end of June 2020, the face value of the outstanding certificates of deposit and debt securities issued was equivalent to HKD63,254 million, with a carrying amount equivalent to HKD63,036 million.

In the first half of 2020, BEA issued fixed rate loan capital with a face value of USD600 million.

At the end of June 2020, the face value of the outstanding loan capital issued was equivalent to HKD14,820 million, with a carrying amount equivalent to HKD14,845 million.

Maturity Profile of Certificates of Deposit and Debt Securities IssuedAs at 30th June, 2020*(All expressed in millions of dollars)*

	Total Face Value	Year of Maturity			
		2020	2021	2022	2023
Floating Rate					
USD	947	327	140	30	450
Fixed Rate (Note)					
HKD	5,130	3,530	1,600		
USD	1,015	915	100		
CNY	2,500			2,500	
GBP	25	25			
Zero Coupon					
HKD	3,285	1,895	1,390		
USD	2,883	2,129	734	20	
CNY	10,630	8,330	2,300		
GBP	210	210			
CHF	80	50	30		
Total Certificates of Deposit and Debt Securities issued in HKD equivalent					
	63,254	43,332	13,305	3,129	3,488

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

Maturity Profile of Loan Capital

As at 30th June, 2020

(All expressed in millions of dollars)

	Total Face Value	Year of Maturity			
		2020	2026	2029	2030
USD (Notes 1 & 3)	1,700	600	500		600
CNY (Note 2)	1,500			1,500	
Total Loan Capital issued in HKD equivalent	14,820	4,650	3,875	1,645	4,650

Notes:

1. The USD500 million loan capital that matures in 2026 will be callable on 3rd November, 2021.

2. The CNY1,500 million loan capital that matures in 2029 will be callable on 25th April, 2024.

3. The USD 600 million loan capital that matures in 2030 will be callable on 29th May, 2025.

e) **Interest rate risk management**

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

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

From 1st July, 2019, in line with the requirements set by the HKMA, new assumptions, such as optionality and behaviour of certain products, are also estimated in the exposure measurement.

Sensitivity analysis in relation to the impact of changes in interest rates on earnings, in terms of net interest income ("NII"), and economic value, in terms of economic value of equity ("EVE") is assessed regularly through a number of hypothetical interest rate shock scenarios prescribed by the HKMA. EVE represents an assessment of the present value of expected net cash flows, discounted to reflect market rates. As fluctuations in interest rates would affect earnings, they would also affect its net worth. Sensitivity limits are set to control the Group's interest rate risk exposure under both earnings and economic value perspectives. The results are reported to the Asset and Liability Management Committee on a regular basis.

f) **Strategic risk management**

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

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

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

g) *Legal risk management*

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

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

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

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

h) *Reputation risk management*

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

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

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

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

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

i) *Compliance risk management*

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

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

j) Technology risk management

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

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

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

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

k) New product and business risk management

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

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

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

l) Business continuity risk management

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

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

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

To cope with the outbreak of COVID-19 pandemic in the early 2020, the Group has implemented a series of precautionary measures including but not limited to maintaining stringent workplace environmental hygiene, self-quarantine, social distancing, work-from-home and split-operations. These measures are proven effective as no significant adverse impact on the Group’s operations due to the COVID-19 pandemic has been identified so far.

Transition Arrangements for Interbank Offered Rate Reform

For many years, interbank offered rates (“IBORs”) were accepted as interest-rate benchmarks across a wide range of products including loans, bonds, and derivatives. They have also been used extensively in valuation and risk management processes.

However, the 2008 financial crisis revealed critical limitations and weaknesses in the use of IBORs. Declining liquidity in unsecured interbank funding markets since the crisis has further undermined confidence in the reliability and robustness of IBORs as a benchmarking tool. In response, major regulators around the world have advocated a shift away from reliance on IBORs.

In 2014, the Financial Stability Board (“FSB”) published a report on interest rate benchmark reform, proposing that a new benchmark tool – alternative risk-free rates (“ARRs”) – replace IBORs. This was followed in 2017 by the announcement that, from 2021, the Financial Conduct Authority (“FCA”) of the UK would no longer require banks to submit reports used to fix the London Interbank Offered Rate (“LIBOR”). This is expected to result in a marked decline in submissions.

As the 2021 deadline approaches, IBOR reform efforts have been stepped up. In January and April 2020, the FCA – together with the Bank of England and the Working Group on Sterling Risk-Free Reference Rates – set out a roadmap for IBOR reform. The roadmap addresses critical issues such as fallback provisions, phasing out of GBP LIBOR cash products, and transition to the ARR-compatible benchmark tool Sterling Overnight Interbank Average Rate (“SONIA”).

Similarly, the Alternative Reference Rates Committee of the United States has set out a roadmap for transition of USD LIBOR products to the ARR-compatible Secured Overnight Financing Rate (“SOFR”). The Hong Kong Monetary Authority is following developments closely, and will ensure local compliance with overseas standards.

In preparation for the adoption of ARR-compatible regimes such as SONIA and SOFR, the Bank has set up a group-wide IBOR Reform Project (the “Project”) to oversee all the transition activities. The Project is led by the Group Chief Financial Officer and includes all relevant functional heads, namely treasury and other business units, operation support, risk management, legal, information technology and accounting.

In order to ensure that customers are informed of developments related to IBOR reform, the Bank posted information on the reform proposals and the Bank’s corresponding actions on its website in June 2020. The Bank also mailed relevant information to clients.

The transition from IBORs to ARRAs involves legal risk and market risk. The legal risk arises as existing contracts do not envision the discontinuation of IBOR. The Bank is reviewing relevant contracts and will make appropriate arrangements to protect the interests of customers. All actions taken will comply with relevant regulatory requirements and be in line with market conventions.

Concerning the market risk arisen from IBOR transition, the Bank is preparing for the necessary process and system changes. Validation will be conducted on all valuation methods and risk exposure calculations for new or changed product features, valuation parameters and models that arise from IBOR reform. The Bank will also monitor the IBOR reform process and adjust its risk management strategy accordingly.

In the second half of 2020, the Bank will conduct an in-depth assessment of the impact of IBOR reform (subsequent to its preliminary high-level assessment performed in late 2019). BEA will then take appropriate action in accordance with assessment results and relevant regulatory requirements and expectations.

SUSTAINABILITY

Given the complex social and environmental issues faced by all companies operating today, during the period under review, BEA placed renewed focus on strengthening governance to support collaborative, cross-divisional environmental, social, and governance (“ESG”) decision-making.

BEA is in the process of forming a Board-level ESG Committee, to be established by the end of 2020. The ESG Committee will oversee the work of the Bank’s ESG Steering Group (“Steering Group”), which is comprised of General Managers from divisions that shape BEA’s ESG development. The Steering Group held its first meeting in May 2020, and is responsible for setting ESG strategy and driving performance.

Reporting to the Steering Group, the ESG Working Group (“Working Group”) is responsible for implementing the strategies set out by the Steering Group. The ESG Working Group is already addressing the Bank’s ESG goals for 2020, including establishment of a Group emission reduction target and identification of BEA’s ESG and climate-related risks. The Working Group has also assumed the duties of the former CSR Working Group, which mainly focusses on reporting. To foster an ESG-conscious culture, the Bank held an ESG workshop in April 2020 for all Hong Kong-based General Managers and Department Heads.

As COVID-19 spread globally during the first half of 2020, BEA reacted quickly to protect customers, employees and the public alike. By reducing opening times in branches in all markets and emphasising digital services, the Bank kept branch traffic to a minimum so as to reduce opportunities for spread of the virus. To further protect customers and staff, floor markings were introduced to promote social-distancing in queues. Hand sanitiser was made readily available at all locations. For the convenience of customers on the Mainland, BEA China issued regular announcements via social media regarding branch operating hours and available customer service channels.

Staff were also asked to work from home where appropriate, and split-team operations went into effect early on. Thanks to the Bank’s robust IT infrastructure and thorough contingency planning, operations continued smoothly despite the sudden implementation of these measures.

On the Mainland, BEA China organised counselling services to support employees’ physical and mental health. All staff members were encouraged to view an online talk prepared by medical professionals on preventive measures against COVID-19, and to make use of an online tool to monitor their health. Across the Group, staff members were advised to practise social distancing by conducting meetings electronically as much as possible.

The Bank of East Asia Charitable Foundation (“BEA Foundation”) celebrated its tenth anniversary in 2020. As many of the BEA Foundation’s planned charitable activities were impacted by COVID-19, it redirected its efforts to provide support during the pandemic. The BEA Foundation donated HK\$2.6 million to 13 non-governmental organisations (“NGOs”) in Hong Kong that helped distribute epidemic aid to the underprivileged, elderly, sick, and disabled in the form of packs containing daily and sanitary necessities, benefitting around 24,000 people. Meanwhile, BEA China provided CNY3 million to the Red Cross Society of China Wuhan Branch and epidemic prevention supplies such as disinfectants, hand sanitisers, and digital thermometers to rural schools in China. In March and April 2020, East Asia Digital Information Services volunteers donated nearly 4,000 face masks to elderly residents of Guangzhou and neighbouring areas.

On the environmental front, recycling rates for metals and plastics at Head Office increased by 170% and 420%, respectively, year on year, following the introduction of recycling bins on every floor in 2019. In addition, the Bank continued to adopt LED lighting at Head Office, resulting in monthly savings of 1,251kWh during the period under review.

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

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

There was no purchase, sale or redemption by the Bank or any of its subsidiaries, of the listed securities of the Bank during the six months ended 30th June, 2020.

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 the ways which they relate to each other and their roles in the application of effective governance policies and processes.

Throughout the six months ended 30th June, 2020, the Bank has complied with all the Code Provisions set out in the CG Code in Appendix 14 of the Listing Rules.

During the six months ended 30th June, 2020, the Bank has also followed the modules on CG-1, CG-5, Guidance on Empowerment of INEDs, and circular on Bank Culture Reform issued by the HKMA.

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

The AC of the Bank has reviewed the results of the Bank for the six months ended 30th June, 2020 and the Bank's Interim Report 2020.

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 (including the Director who resigned during the six months ended 30th June, 2020) confirmed that they had complied with the required standard set out in the Model Code and the Bank's Policy at all the applicable time during the six months ended 30th June, 2020.

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

Brian David LI Man-bun
Co-Chief Executive

Hong Kong, 20th August, 2020

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

[#] Executive Director

^{*} Non-executive Director

^{**} Independent Non-executive Director

GLOSSARY

詞彙

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

CG-5 「CG-5」	Supervisory Policy Manual CG-5 on Guideline on a Sound Remuneration System, issued by the HKMA 金管局頒布之監管政策手冊 CG-5 內有關《穩健的薪酬制度指引》
CHF 「瑞士法郎」	Swiss franc, the lawful currency of Switzerland 瑞士法定貨幣
China, Mainland, Mainland China or PRC 「中國」或「內地」	People's Republic of China 中華人民共和國
CNY or RMB 「人民幣」	Chinese yuan or Renminbi, the lawful currency of the PRC 中國法定貨幣
Companies Ordinance 「《公司條例》」	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) 《公司條例》（香港法例第 622 章）
Director(s) 「董事」	includes any person who occupies the position of a director, by whatever name called, of the Bank or otherwise as the context may require 包括任何擔任本行董事職位的人士（無論該人是以何職稱擔任該職位），或文義另有所指的人士
ECL 「預期信貸損失」	Expected credit loss 預期信貸損失
ERM 「企業風險管理架構」	Enterprise Risk Management 企業風險管理架構
ESG 「環境、社會及管治」	Environmental, social and governance 環境、社會及管治
EVE 「股權經濟價值」	Economic value of equity 股權經濟價值
FCA 「英國金融行為監管局」	Financial Conduct Authority 英國金融行為監管局
FSB 「金融穩定委員會」	Financial Stability Board 金融穩定委員會
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
GBP 「英鎊」	Pound sterling, the lawful currency of the UK 英國法定貨幣
HK\$ or HKD 「港幣」	Hong Kong dollar, the lawful currency of Hong Kong 香港法定貨幣
HKAS 「香港會計準則」	Hong Kong Accounting Standards 香港會計準則
HKEX 「香港交易所」	Hong Kong Exchanges and Clearing Limited 香港交易及結算所有限公司

HKFRS 「香港財務報告準則」	Hong Kong Financial Reporting Standards 香港財務報告準則
HKICPA 「香港會計師公會」	Hong Kong Institute of Certified Public Accountants 香港會計師公會
HKMA 「金管局」	Hong Kong Monetary Authority 香港金融管理局
Hong Kong 「香港」	Hong Kong Special Administration Region of PRC 中華人民共和國香港特別行政區
HQLA 「優質流動資產」	High-quality liquid asset 優質流動資產
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 (as amended, modified or otherwise supplemented from time to time) 聯交所《證券上市規則》，經不時修訂、修改或以其他方式補充
Mn 「百萬」	Million 百萬
MPF 「強積金」	Mandatory Provident Fund 強制性公積金
NGO 「非政府組織」	Non-governmental organization 非政府組織
NII 「淨利息收入」	Net interest income 淨利息收入
NIM 「淨息差」	Net interest margin 淨息差
NPL 「不良貸款比率」	Non-performing loan 不良貸款比率
NSFR 「穩定資金淨額比率」	Net Stable Funding Ratio 穩定資金淨額比率
PBOC 「人行」	People's Bank of China 中國人民銀行
SGD 「新加坡元」	Singapore Dollar, the lawful currency of Singapore 新加坡法定貨幣

Shares 「股份」	Ordinary shares of the Bank 本行普通股
SME 「中小企」	Small and medium-sized enterprise 中小型企業
SOFR 「具抵押隔夜融資利率」	Secured Overnight Financing Rate 具抵押隔夜融資利率
SONIA 「英鎊隔夜指數」	Secured Overnight Interbank Average Rate 英鎊隔夜指數
Steering Group 「督導小組」	The Bank's ESG Steering Group 本行轄下環境、社會及管治督導小組
Stock Exchange 「聯交所」	The Stock Exchange of Hong Kong Limited 香港聯合交易所有限公司
UK 「英國」	United Kingdom 英國
US 「美國」	United States of America 美利堅合眾國
US\$ or USD 「美元」	United States dollar, the lawful currency of the US 美國法定貨幣
VaR 「風險值」	Value-at-risk 風險值
Working Group 「工作小組」	The Bank's ESG Working Group 本行轄下環境、社會及管治工作小組