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BEA 東亞銀行

The Bank of East Asia, Limited

東亞銀行有限公司

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

**INTERIM RESULTS
AND
INDEPENDENT REVIEW REPORT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2019**

Reference is made to the preliminary announcement of The Bank of East Asia, Limited (the “**Bank**”, together with its subsidiaries, the “**Group**”) dated 21st August, 2019 in relation to the unaudited results of the Group for the six months ended 30th June, 2019. The full interim report 2019 of the Bank (the “**Interim Report 2019**”) is expected to be sent by the Bank to shareholders on or about 16th September, 2019. Pages 3 to 80 of the Interim Report 2019 containing the Bank’s 2019 interim results and KPMG’s independent review report are extracted in the appendix to this announcement (the “**Appendix**”). Page references referred to in the Appendix refer to pages set out in the Interim Report 2019.

As at 6th September, 2019, the Board of Directors of the Bank comprises Dr. the Hon. Sir David LI Kwok-po[#] (Executive Chairman), Professor Arthur LI Kwok-cheung (Deputy Chairman), Dr. Allan WONG Chi-yun** (Deputy Chairman), Mr. Aubrey LI Kwok-sing*, Mr. Winston LO Yau-lai*, Mr. Stephen Charles LI Kwok-sze*, Dr. Isidro FAINÉ CASAS*, Mr. Adrian David LI Man-kiu[#] (Co-Chief Executive), Mr. Brian David LI Man-bun[#] (Co-Chief Executive), Dr. Daryl NG Win-kong*, Mr. Masayuki OKU*, Dr. the Hon. Rita FAN HSU Lai-tai**, Mr. Meocre LI Kwok-wing**, Dr. the Hon. Henry TANG Ying-yen** and Dr. Delman LEE**.*

[#] Executive Director

* Non-executive Director

** Independent Non-executive Director

Appendix

INTERIM RESULTS

The Board of Directors of the Bank is pleased to announce the unaudited results (Note 1(a)) of the Group for the six months ended 30th June, 2019. The interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2018 audited financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 audited financial statements. Details of these changes in accounting policies are set out in Note 2. The interim financial report is unaudited, but 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. KPMG's independent review report to the Board is included on page 80.

Consolidated Income Statement

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

Consolidated Income Statement (Continued)

		6 months ended 30/6/2019	6 months ended 30/6/2018
	Notes	HK\$ Mn	HK\$ Mn
Attributable to:			
Owners of the parent		1,000	3,992
Non-controlling interests		38	27
		<hr/>	<hr/>
Profit for the period		1,038	4,019
		<hr/>	<hr/>
Profit for the Bank		3,246	3,369
		<hr/>	<hr/>
Earnings per share			
Basic - profit for the period	1(b)	HK\$0.22	HK\$1.30
Diluted - profit for the period	1(b)	HK\$0.22	HK\$1.30

Consolidated Statement of Comprehensive Income

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

Consolidated Statement of Financial Position

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

Consolidated Statement of Changes in Equity

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

Note: Other reserves include statutory reserve and other reserves.

Condensed Consolidated Cash Flow Statement

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

1. (a) This interim report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of these changes in accounting policies are set out in Note 2 below.

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

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

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

- (b) (i) The calculation of basic earnings per share is based on the consolidated profit for the period attributable to owners of the parent of HK\$643 million (six months ended 30th June, 2018: HK\$3,635 million) respectively after the distribution of HK\$357 million (six months ended 30th June, 2018: HK\$357 million) to Hybrid/Additional Tier 1 issue holders, and on the weighted average of 2,869 million (six months ended 30th June, 2018: 2,786 million) ordinary shares outstanding during the six months ended 30th June, 2019.
- (ii) The calculation of diluted earnings per share is based on the consolidated profit for the period attributable to owners of the parent of HK\$643 million (six months ended 30th June, 2018: HK\$3,635 million) respectively after the distribution of HK\$357 million (six months ended 30th June, 2018: HK\$357 million) to Hybrid/Additional Tier 1 issue holders, and on 2,869 million (six months ended 30th June, 2018: 2,787 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30th June, 2019, adjusted for the effects of all dilutive potential shares.

(c) Distribution/Dividends

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

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

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

1. (c) Distribution/Dividends (Continued)

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

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

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

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

(d) Share Capital

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

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

2. Changes in Accounting Policies

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

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

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

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

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

(a) Definition of a lease

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

(b) As a lessee

The Group leases many assets, including properties and equipments.

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

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

2. Changes in Accounting Policies (Continued)

(b) As a lessee (Continued)

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

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

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

i. Significant accounting policies

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

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

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

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

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

2. Changes in Accounting Policies (Continued)

(b) As a lessee (Continued)

ii. Transition

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

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

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

(c) As a lessor

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

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

(d) Impacts on transition

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

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

2. Changes in Accounting Policies (Continued)

(d) Impacts on transition (Continued)

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

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

3. Interest Income

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

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

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

4. Interest Expense

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

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

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

5. Fee and Commission Income

Fee and commission income is disaggregated by services:

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

6. Net Trading Profits

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

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

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

8. Net Hedging Profit

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

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

9. Net Insurance Revenue

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

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

10. Other Operating Income

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

11. Operating Expenses

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

12. Impairment Losses on Financial Instruments

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

13. Net Profit on Sale of Financial Assets at FVOCI

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

14. Net Profit on Sale of Assets Held for Sale

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

15. Net Loss on Disposal of Fixed Assets

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

16. Income Tax

Taxation in the consolidated income statement represents:

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

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

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

17. Cash and Balances with Banks and Other Financial Institutions

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

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

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

19. Trade Bills

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

20. Trading Assets

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

21. Loans and Advances to Customers

(a) Loans and advances to customers

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

21. Loans and Advances to Customers (Continued)

(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.

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

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

21. Loans and Advances to Customers (Continued)

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

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

21. Loans and Advances to Customers (Continued)

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

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

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

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

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

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

21. Loans and Advances to Customers (Continued)

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

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

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

22. Investment Securities

	30/6/2019				
	Mandatorily measured at FVTPL	Designated at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	–	–	30,901	2,812	33,713
Certificates of deposits held	–	–	1,065	933	1,998
Debt securities	9,712	1,303	91,715	15,344	118,074
Equity securities	1,805	–	1,105	–	2,910
Investment funds	517	–	–	–	517
	<u>12,034</u>	<u>1,303</u>	<u>124,786</u>	<u>19,089</u>	<u>157,212</u>
	31/12/2018				
	Mandatorily measured at FVTPL	Designated at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	–	–	26,594	1,915	28,509
Certificates of deposits held	–	–	1,191	1,109	2,300
Debt securities	10,663	1,630	81,574	15,997	109,864
Equity securities	2,513	–	688	–	3,201
Investment funds	855	–	–	–	855
	<u>14,031</u>	<u>1,630</u>	<u>110,047</u>	<u>19,021</u>	<u>144,729</u>

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

22. Investment Securities (Continued)

Equity securities designated at FVOCI

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

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

23. Fixed Assets

30/6/2019

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

24. Other Assets

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

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

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

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

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

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

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

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

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

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

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

26. Trading Liabilities

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

27. Other Liabilities

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

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

28. Loan Capital

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

- (1) Two tranches of loan capital of face value totalling HK\$4,688 million (USD600 million) and carrying amount totalling HK\$4,730 million (31/12/2018: HK\$4,710 million) were issued on 16th July, 2010 (USD450 million) and on 23rd July, 2010 (USD150 million) by the Bank. These subordinated notes carrying a coupon rate of 6.125% qualifying as Tier 2 capital are listed on the Singapore Exchange and will mature on 16th July, 2020. The notes are under fair value hedge accounting and hedge ineffectiveness of HK\$3 million loss was recorded in the first half of 2019 (first half 2018: HK\$3 million loss).
- (2) Loan capital of face value of HK\$3,907 million (USD500 million) and carrying amount of HK\$3,897 million (31/12/2018: HK\$3,878 million) represents 4.25% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 20th November, 2014 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 20th November, 2024. The notes are under fair value hedge accounting and hedge ineffectiveness of HK\$0.05 million profit was recorded in first half of 2019 (first half 2018: HK\$1 million loss).
- (3) Loan capital of face value of HK\$3,907 million (USD500 million) and carrying amount of HK\$3,862 million (31/12/2018: HK\$3,770 million) represents 4% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 3rd November, 2016 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 3rd November, 2026. The notes are under fair value hedge accounting and hedge ineffectiveness of HK\$0.7 million loss was recorded in first half of 2019 (first half 2018: HK\$2 million loss).
- (4) Loan capital of face value of HK\$1,707 million (RMB1,500 million) and carrying amount of HK\$1,704 million represents 4.94% subordinated notes issued on 25th April, 2019 by the Bank's subsidiary, BEA (China). The notes will mature on 25th April, 2029.

29. Segment Reporting

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

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

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

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

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

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

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

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

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

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

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

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

29. Segment Reporting (Continued)

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

29. Segment Reporting (Continued)

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

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

30. Analysis of Assets and Liabilities by Remaining Maturity

30/6/2019

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

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

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

31. Deferred Tax Assets and Liabilities Recognised

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

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

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

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

32. Reserves

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

* A regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances and investments in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the HKMA. As at 30th June, 2019, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Bank to shareholders by HK\$4,942 million (31/12/2018: HK\$5,112 million).

33. Additional Equity Instruments

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

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

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

34. Consolidated Cash Flow Statement

Cash and cash equivalents

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

35. Offsetting Financial Instruments

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

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

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

35. Offsetting Financial Instruments (Continued)

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

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

35. Offsetting Financial Instruments (Continued)

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

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

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

36. Fair Values of Financial Instruments

(a) *Financial instruments carried at fair value*

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

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

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

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

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

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

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

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

36. Fair Values of Financial Instruments (Continued)

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

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

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

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

36. Fair Values of Financial Instruments (Continued)

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

Information about significant unobservable inputs in Level 3 valuations:

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

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

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

36. Fair Values of Financial Instruments (Continued)

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

- (1) Valuation of financial instruments with significant unobservable inputs

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

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

36. Fair Values of Financial Instruments (Continued)

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

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

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

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

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

36. Fair Values of Financial Instruments (Continued)

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

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

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

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

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

37. Credit Risk

The Group adopts the criteria of stage allocation as follows:

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

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

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

a. Credit Quality Analysis

Credit quality of loans and advances

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

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

37. Credit Risk (Continued)

a. Credit Quality Analysis (Continued)

Credit quality of loans and advances (Continued)

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

Credit quality of financial assets other than loans and advances

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

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

37. Credit Risk (Continued)

a. Credit Quality Analysis (Continued)

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

	31/12/2018							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Trade bills at amortised cost								
– Grades 1 - 15: Pass	2,816	45	69	–	–	–	2,885	45
– Grades 16 - 17: Special Mention	–	–	–	–	–	–	–	–
– Grade 18: Substandard	–	–	–	–	–	–	–	–
– Grade 19: Doubtful	–	–	–	–	1	–	1	–
– Grade 20: Loss	–	–	–	–	–	–	–	–
Total gross carrying amount	2,816	45	69	–	1	–	2,886	45
Impairment allowances	(3)	–	–	–	(1)	–	(4)	–
Carrying amount	<u>2,813</u>	<u>45</u>	<u>69</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,882</u>	<u>45</u>
	30/6/2019							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Trade bills at FVOCI								
– Grades 1 - 15: Pass	10,401	1	1,394	–	–	–	11,795	1
Total carrying amount at fair value	<u>10,401</u>	<u>1</u>	<u>1,394</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>11,795</u>	<u>1</u>
Impairment allowances	<u>(4)</u>	<u>–</u>	<u>(3)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(7)</u>	<u>–</u>

37. Credit Risk (Continued)

a. Credit Quality Analysis (Continued)

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

	31/12/2018							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Trade bills at FVOCI								
– Grades 1 - 15: Pass	11,541	2	223	–	–	–	11,764	2
Total carrying amount at fair value	11,541	2	223	–	–	–	11,764	2
Impairment allowances	(5)	–	–	–	–	–	(5)	–
	30/6/2019							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Placements with and advances to banks and other financial institutions								
– Grades 1 - 15: Pass	69,728	52	–	–	–	–	69,728	52
Total gross carrying amount	69,728	52	–	–	–	–	69,728	52
Impairment allowances	(8)	–	–	–	–	–	(8)	–
Carrying amount	69,720	52	–	–	–	–	69,720	52

37. Credit Risk (Continued)

a. Credit Quality Analysis (Continued)

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

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

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

37. Credit Risk (Continued)

a. Credit Quality Analysis (Continued)

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

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

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.

37. Credit Risk (Continued)

a. Credit Quality Analysis (Continued)

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

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

	30/6/2019							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt investment securities at amortised cost								
Aaa	-	-	-	-	-	-	-	-
Aa1 to Aa3	2,848	1	-	-	-	-	2,848	1
A1 to A3	5,628	99	-	-	-	-	5,628	99
Baa1 to Baa3	2,560	33	-	-	-	-	2,560	33
Below Baa3	1,903	27	79	1	-	-	1,982	28
Unrated	6,119	74	28	1	-	-	6,147	75
Total gross carrying amount	19,058	234	107	2	-	-	19,165	236
Impairment allowances	(74)	-	(2)	-	-	-	(76)	-
Carrying amount	18,984	234	105	2	-	-	19,089	236
	31/12/2018							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt investment securities at amortised cost								
Aaa	-	-	-	-	-	-	-	-
Aa1 to Aa3	2,695	2	-	-	-	-	2,695	2
A1 to A3	6,007	103	-	-	-	-	6,007	103
Baa1 to Baa3	2,546	32	-	-	-	-	2,546	32
Below Baa3	1,492	20	-	-	-	-	1,492	20
Unrated	6,347	76	28	1	-	-	6,375	77
Total gross carrying amount	19,087	233	28	1	-	-	19,115	234
Impairment allowances	(93)	(1)	(1)	-	-	-	(94)	(1)
Carrying amount	18,994	232	27	1	-	-	19,021	233

37. Credit Risk (Continued)

a. Credit Quality Analysis (Continued)

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

	30/6/2019							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt investment securities at FVOCI								
Aaa	6,444	7	-	-	-	-	6,444	7
Aa1 to Aa3	21,211	5	-	-	-	-	21,211	5
A1 to A3	48,622	623	-	-	-	-	48,622	623
Baa1 to Baa3	37,077	396	-	-	-	-	37,077	396
Below Baa3	1,338	13	-	-	-	-	1,338	13
Unrated	8,755	103	234	3	-	-	8,989	106
Total carrying amount at fair value	<u>123,447</u>	<u>1,147</u>	<u>234</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>123,681</u>	<u>1,150</u>
Impairment allowances	<u>(235)</u>	<u>(2)</u>	<u>(4)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(239)</u>	<u>(2)</u>
	31/12/2018							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt investment securities at FVOCI								
Aaa	5,566	8	-	-	-	-	5,566	8
Aa1 to Aa3	19,355	7	-	-	-	-	19,355	7
A1 to A3	41,890	627	-	-	-	-	41,890	627
Baa1 to Baa3	31,302	336	-	-	-	-	31,302	336
Below Baa3	1,157	15	-	-	-	-	1,157	15
Unrated	9,856	130	233	3	-	-	10,089	133
Total carrying amount at fair value	<u>109,126</u>	<u>1,123</u>	<u>233</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>109,359</u>	<u>1,126</u>
Impairment allowances	<u>(257)</u>	<u>(3)</u>	<u>(6)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(263)</u>	<u>(3)</u>

37. Credit Risk (Continued)

a. Credit Quality Analysis (Continued)

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

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

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

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

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

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

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

37. Credit Risk (Continued)

a. Credit Quality Analysis (Continued)

Cash and balances with banks and other financial institutions

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

b. Impairment Allowances Reconciliation

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

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

37. Credit Risk (Continued)

b. Impairment Allowances Reconciliation (Continued)

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

37. Credit Risk (Continued)

b. Impairment Allowances Reconciliation (Continued)

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

37. Credit Risk (Continued)

b. Impairment Allowances Reconciliation (Continued)

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

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

37. Credit Risk (Continued)

b. Impairment Allowances Reconciliation (Continued)

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

37. Credit Risk (Continued)

b. Impairment Allowances Reconciliation (Continued)

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

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

38. Off-balance Sheet Exposures

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

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

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

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

38. Off-balance Sheet Exposures (Continued)

(b) Capital commitments

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

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

(c) Contingencies

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

39. Material Related Party Transactions

(a) Key management personnel remuneration

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

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

39. Material Related Party Transactions (Continued)

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

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

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

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

40. Basis of Consolidation

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

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

List of subsidiaries for financial reporting consolidation as at reporting date:

Name of company	Nature of business	Total assets HK\$ Mn	Total equity HK\$ Mn
Ample Delight Limited	Investment holding	349	349
* Bank of East Asia (Trustees) Limited	Trustee	243	230
BC (BVI) Holdings Limited	Investment holding	16	16
BEA Blue Sky Company Limited	Acting as the sole general partner to BEA Blue Sky Real Estate Fund L.P.	–	–
BEA Blue Sky Real Estate Fund L.P.	Acting as a limited partner for the purpose of making investment in a China real estate fund	–	–
BEA Blue Sky SLP Limited	Acting as a special limited partner to BEA/AGRE China Real Estate Fund, L.P.	–	(1)
BEA Consortium GS Investors L.P.	Acting as a limited partner for the purpose of making investment in private equity fund	52	52
BEA Insurance Agency Limited	Insurance agency	–	–
BEA Life Limited	Life insurance	21,511	2,124
BEA Pacific Asia Limited	Dormant	–	–
BEA Union Investment Management Limited	Asset management	568	489
BEA Union Investment Management (Shenzhen) Limited	Asset management/Investment management	5	4
Blue Care (BVI) Holdings Limited	Investment holding	16	16
Blue Care JV (BVI) Holdings Limited	Investment holding	20	17

40. Basis of Consolidation (Continued)

Name of company	Nature of business	Total assets	Total equity
		HK\$ Mn	HK\$ Mn
Blue Care Medical Services Limited	Medical services	58	44
Blue Cross (Asia-Pacific) Insurance Limited	Insurance	3,058	733
Central Town Limited	Property investment	845	679
Century Able Limited	Investment holding	96	96
Chongqing Dongrong Business Consultancy Company Limited	Business consultancy services	3	(1)
* Chongqing Liangjiang New Area Credit Gain Finance Company Limited	Micro-finance loan	359	356
Citiview Capital Limited	Acting as the general partner and limited partner of a limited partnership	3	(1)
Corona Light Limited	Investment holding	930	930
* Credit Gain Finance Company Limited	Money lenders	771	756
Crystal Gleaming Limited	Investment holding	930	930
Dragon Jade Holdings Company Limited	Investment holding	1,127	1,127
EA Securities Limited	Investment holding	–	(63)
* East Asia Digital Information Services (Guangdong) Limited	Servicing	186	124
* East Asia Facility Management Limited	Facility management	13	12
East Asia Financial Services (BVI) Ltd.	Investment holding	–	–
East Asia Futures Limited	Futures and options trading	59	59
* East Asia Holding Company, Inc.	Bank holding company	631	614
East Asia Indonesian Holdings Limited	Investment holding	132	131
East Asia International Trustees Holdings (BVI) Limited	Investment holding	10	10
East Asia International Trustees Limited	Trustee services	29	25

40. Basis of Consolidation (Continued)

Name of company	Nature of business	Total assets	Total equity
		HK\$ Mn	HK\$ Mn
* East Asia Properties (US), Inc.	Property holding	14	12
East Asia Properties Holding Company Limited	Investment holding	–	(57)
East Asia Property Agency Company Limited	Property agency	8	8
East Asia Property Holdings (Jersey) Limited	Property holding	27	26
East Asia Qianhai Holdings Company Limited	Investment holding	209	209
East Asia Secretaries Limited	Secretarial services	–	–
East Asia Securities Company Limited	Securities broking	1,184	865
* East Asia Services (Holdings) Limited	Holding company	24	–
Golden Empire International Inc.	Property investment	1	1
High Town Limited	Investment holding	4	4
* Innovate Holdings Limited	Special purpose vehicle company specially set up for BEA's Hybrid Tier 1 issue	2,486	2,486
Leader One Limited	Investment holding	1	1
Manchester Property Holdings Ltd.	Property holding	33	17
Quantum Hong Kong Holdings Company Limited	Investment holding	208	208
Red Phoenix Limited	Leasing of motor vehicles	2	1
Shaftesbury Property Holdings Limited	Investment holding	68	68
Shaftesbury Property Investments Limited	Investment holding	51	51
Shanghai Lingxie Business Consulting Co. Ltd.	Business information consulting, corporate management consulting	206	206
Silver River International Limited	Acting as the general partner and limited partner of a limited partnership	47	–

40. Basis of Consolidation (Continued)

Name of company	Nature of business	Total assets HK\$ Mn	Total equity HK\$ Mn
Silver Sunlight Limited	Acting as the general partner of a limited partnership	–	–
Skyray Holdings Limited	Investment holding	450	450
Speedfull Limited	Investment holding	450	450
* /# The Bank of East Asia (China) Limited	Banking and related financial services	277,894	25,982
The Bank of East Asia (Nominees) Limited	Nominee services	–	–
The Bank of East Asia (Nominees) Private Limited	Trustee, fiduciary and custody services	–	–
Travelsafe Limited	Dormant	–	–
U Care Hong Kong Medical Limited	Medical services	28	(10)
United Chinese (Nominee) Limited	Dormant	–	–

* “regulated financial entities” as defined by the Capital Rules and included in the basis of consolidation for regulatory reporting purpose.

“associated entities” as defined by the Banking (Liquidity) Rules and included in the basis of consolidation for regulatory reporting purpose.

41. Comparative Figures

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

42. Statement of Compliance

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

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

43. Assets Held for Sale

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

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

43. Assets Held for Sale (Continued)

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

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

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

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

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

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

Supplementary Financial Information

A. Capital Adequacy

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

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

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

Supplementary Financial Information (Continued)

A. Capital Adequacy (Continued)

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

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

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

B. Leverage Ratio

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

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

C. Liquidity Position

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

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

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

Supplementary Financial Information (Continued)

D. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

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

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

Supplementary Financial Information (Continued)

D. Overdue, Rescheduled and Repossessed Assets (Continued)

(a) Overdue and rescheduled advances (Continued)

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

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

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

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

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

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

(b) Advances to banks

	30/6/2019 HK\$ Mn	31/12/2018 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	–	–

Supplementary Financial Information (Continued)

D. Overdue, Rescheduled and Repossessed Assets (Continued)

(c) Other overdue and rescheduled assets

	30/6/2019		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
– 6 months or less but over 3 months	4	–	–
– 1 year or less but over 6 months	31	–	–
– Over 1 year	320	–	–
	<u>355</u>	<u>–</u>	<u>–</u>
Rescheduled assets	1	–	–
	<u>1</u>	<u>–</u>	<u>–</u>
Total other overdue and rescheduled assets	<u>356</u>	<u>–</u>	<u>–</u>
	31/12/2018		
	Accrued Interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
– 6 months or less but over 3 months	19	–	–
– 1 year or less but over 6 months	8	–	–
– Over 1 year	281	–	1
	<u>308</u>	<u>–</u>	<u>1</u>
Rescheduled assets	1	–	–
	<u>1</u>	<u>–</u>	<u>–</u>
Total other overdue and rescheduled assets	<u>309</u>	<u>–</u>	<u>1</u>

* Other assets refer to trade bills and receivables.

Supplementary Financial Information (Continued)

D. Overdue, Rescheduled and Repossessed Assets (Continued)

(d) Repossessed assets

	30/6/2019	31/12/2018
	HK\$ Mn	HK\$ Mn
Reposessed land and buildings*	208	147
Reposessed vehicles and equipment	1	–
Reposessed machines	–	–
	<hr/>	<hr/>
Total reposessed assets	<u>209</u>	<u>147</u>

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

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

E. Banking Disclosure Statement

Additional information disclosures for this period which are prepared in accordance with the Banking (Disclosure) Rules and disclosure templates issued by the 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.

INDEPENDENT REVIEW REPORT



TO THE BOARD OF DIRECTORS OF THE BANK OF EAST ASIA, LIMITED

INTRODUCTION

We have reviewed the interim financial report set out on pages 3 to 73 which comprises the consolidated statement of financial position of The Bank of East Asia, Limited as of 30th June, 2019 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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 Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30th June, 2019 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, "Interim financial reporting".

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21st August, 2019