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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)

## **ANNOUNCEMENT OF 2016 FINAL RESULTS**

### **SUMMARY OF RESULTS**

The Board of Directors of the Bank is pleased to announce the audited results (Note1(a)) of the Group for the year ended 31<sup>st</sup> December, 2016. This financial report, which has been reviewed by the Bank's Audit Committee, is prepared on a basis consistent with the accounting policies and methods adopted in the 2016 annual accounts.

#### **Consolidated Income Statement**

|                                                                                       | Notes | 2016<br>HK\$ Mn | 2015<br>Restated<br>HK\$ Mn |
|---------------------------------------------------------------------------------------|-------|-----------------|-----------------------------|
| <b>CONTINUING OPERATIONS</b>                                                          |       |                 |                             |
| Interest income                                                                       | 3     | 20,363          | 23,581                      |
| Interest expense                                                                      | 4     | (9,265)         | (11,652)                    |
| Net interest income                                                                   |       | 11,098          | 11,929                      |
| Fee and commission income                                                             | 5     | 3,485           | 3,822                       |
| Fee and commission expense                                                            |       | (892)           | (917)                       |
| Net fee and commission income                                                         |       | 2,593           | 2,905                       |
| Net trading profits                                                                   | 6     | 480             | 233                         |
| Net result from financial instruments designated at fair value through profit or loss | 7     | (92)            | (35)                        |
| Net hedging loss                                                                      | 8     | (22)            | (10)                        |
| Net insurance revenue                                                                 | 9     | 415             | 372                         |
| Other operating income                                                                | 10    | 378             | 473                         |
| Non-interest income                                                                   |       | 3,752           | 3,938                       |
| Operating income                                                                      |       | 14,850          | 15,867                      |
| Operating expenses                                                                    | 11    | (8,342)         | (8,904)                     |
| Operating profit before impairment losses                                             |       | 6,508           | 6,963                       |
| Impairment losses on loans and receivables                                            |       | (3,462)         | (2,031)                     |
| Impairment losses on available-for-sale financial assets                              |       | (1)             | (17)                        |
| Impairment losses                                                                     |       | (3,463)         | (2,048)                     |
| Operating profit after impairment losses                                              |       | 3,045           | 4,915                       |
| Net profit on sale of held-to-maturity investments                                    |       | 10              | 3                           |
| Net profit on sale of available-for-sale financial assets                             | 12    | 92              | 257                         |
| Net loss on repurchase of debt issued                                                 |       | (6)             | -                           |
| Net loss on sale of loans and receivables                                             |       | -               | (2)                         |
| Net profit on sale of disposal groups and assets held for sale                        |       | 99              | -                           |
| Net gain on disposal of fixed assets                                                  | 13    | 859             | 110                         |
| Valuation gains on investment properties                                              |       | 62              | 546                         |
| Share of profits less losses of associates                                            |       | 431             | 556                         |
| Profit for the year before taxation                                                   |       | 4,592           | 6,385                       |
| Income tax                                                                            | 14    | (1,067)         | (1,049)                     |
| Profit for the year from continuing operations                                        |       | 3,525           | 5,336                       |
| <b>DISCONTINUED OPERATIONS</b>                                                        |       |                 |                             |
| Profit from discontinued operations                                                   | 25    | 304             | 302                         |
| Profit for the year                                                                   |       | 3,829           | 5,638                       |

# Consolidated Income Statement (Continued)

|                                     |       | 2016     | 2015     |
|-------------------------------------|-------|----------|----------|
|                                     |       |          | Restated |
|                                     | Notes | HK\$ Mn  | HK\$ Mn  |
| Attributable to:                    |       |          |          |
| Owners of the parent                |       |          |          |
| - from continuing operations        |       | 3,505    | 5,305    |
| - from discontinued operations      |       | 218      | 217      |
|                                     |       | 3,723    | 5,522    |
| Non-controlling interests           |       | 106      | 116      |
| Profit for the year                 |       | 3,829    | 5,638    |
| Earnings per share                  |       |          |          |
| Basic                               | 1(b)  |          |          |
| - profit for the year               |       | HK\$1.21 | HK\$1.95 |
| - profit from continuing operations |       | HK\$1.12 | HK\$1.86 |
| Diluted                             | 1(b)  |          |          |
| - profit for the year               |       | HK\$1.21 | HK\$1.95 |
| - profit from continuing operations |       | HK\$1.12 | HK\$1.86 |
| Dividends per share                 |       | HK\$0.56 | HK\$0.88 |

## Consolidated Statement of Comprehensive Income

|                                                                  |       | 2016    | 2015    |
|------------------------------------------------------------------|-------|---------|---------|
|                                                                  | Notes | HK\$ Mn | HK\$ Mn |
| Net profit                                                       |       | 3,829   | 5,638   |
| Other comprehensive income for the year:                         |       |         |         |
| Items that will not be reclassified to income statement:         |       |         |         |
| Premises:                                                        |       |         |         |
| - unrealised surplus on revaluation of premises                  |       | 141     | 14      |
| Items that may be reclassified subsequently to income statement: |       |         |         |
| Premises:                                                        |       |         |         |
| - deferred taxes                                                 |       | 10      | (17)    |
| Available-for-sale investment revaluation reserve:               |       |         |         |
| - fair value changes recognised to/(from) equity                 |       | 12      | (17)    |
| - fair value changes reclassified (to)/from income statement:    |       |         |         |
| - on impairment and amortisation                                 |       | 27      | 61      |
| - on disposal                                                    | 12    | (136)   | (327)   |
| - deferred taxes                                                 |       | 73      | 6       |
| Share of changes in equity of associates                         |       | 147     | (59)    |
| Exchange differences on translation of:                          |       |         |         |
| - accounts of overseas branches, subsidiaries and associates     |       | (2,144) | (2,157) |
| Other comprehensive income                                       |       | (1,870) | (2,496) |
| Total comprehensive income                                       |       | 1,959   | 3,142   |
| Total comprehensive income attributable to:                      |       |         |         |
| Owners of the parent                                             |       | 1,884   | 3,051   |
| Non-controlling interests                                        |       | 75      | 91      |
|                                                                  |       | 1,959   | 3,142   |

## Consolidated Statement of Financial Position

|                                                                  | Notes | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|------------------------------------------------------------------|-------|-----------------|-----------------|
| <b>ASSETS</b>                                                    |       |                 |                 |
| Cash and balances with banks and other financial institutions    |       | 65,720          | 69,122          |
| Placements with banks and other financial institutions           |       | 44,052          | 80,828          |
| Trade bills                                                      |       | 11,939          | 19,532          |
| Trading assets                                                   | 15    | 4,404           | 5,335           |
| Financial assets designated at fair value through profit or loss | 16    | 3,554           | 4,336           |
| Positive fair value of derivatives                               | 21    | 8,938           | 6,205           |
| Advances to customers and other accounts                         | 17    | 489,520         | 473,088         |
| Available-for-sale financial assets                              | 18    | 110,491         | 93,595          |
| Held-to-maturity investments                                     | 19    | 5,663           | 6,199           |
| Investments in associates                                        |       | 6,011           | 5,763           |
| Fixed assets                                                     |       | 11,990          | 13,297          |
| - Investment properties                                          |       | 4,467           | 4,891           |
| - Other properties and equipment                                 |       | 7,523           | 8,406           |
| Goodwill and intangible assets                                   |       | 2,639           | 3,883           |
| Deferred tax assets                                              |       | 785             | 181             |
| Total Assets                                                     |       | 765,706         | 781,364         |
| <b>EQUITY AND LIABILITIES</b>                                    |       |                 |                 |
| Deposits and balances of banks and other financial institutions  |       | 26,475          | 32,126          |
| Deposits from customers                                          |       | 535,789         | 540,743         |
| Trading liabilities                                              |       | 50              | 889             |
| Negative fair value of derivatives                               | 21    | 7,982           | 6,909           |
| Certificates of deposit issued                                   |       | 28,857          | 37,277          |
| - Designated at fair value through profit or loss                |       | 18,106          | 16,457          |
| - At amortised cost                                              |       | 10,751          | 20,820          |
| Current taxation                                                 |       | 1,605           | 1,325           |
| Debt securities issued                                           |       | 7,154           | 13,597          |
| - Designated at fair value through profit or loss                |       | 418             | 2,539           |
| - At amortised cost                                              |       | 6,736           | 11,058          |
| Deferred tax liabilities                                         |       | 462             | 534             |
| Other accounts and provisions                                    |       | 50,088          | 45,327          |
| Loan capital – at amortised cost                                 |       | 20,608          | 16,996          |
| Total Liabilities                                                |       | 679,070         | 695,723         |
| Share capital                                                    | 1(c)  | 35,490          | 33,815          |
| Reserves                                                         | 22    | 42,941          | 43,598          |
| Total equity attributable to owners of the parent                |       | 78,431          | 77,413          |
| Additional equity instruments                                    |       | 5,016           | 5,016           |
| Non-controlling interests                                        |       | 3,189           | 3,212           |
| Total Equity                                                     |       | 86,636          | 85,641          |
| Total Equity and Liabilities                                     |       | 765,706         | 781,364         |

## Consolidated Statement of Changes in Equity

|                                                                              | Share capital | Capital reserve – staff share options issued | Exchange revaluation reserve | Investment revaluation reserve | Revaluation reserve of bank premises | Capital reserve | General reserve | Other reserves <sup>4</sup> | Retained profits | Total   | Additional equity instruments | Non-controlling interests | Total equity |
|------------------------------------------------------------------------------|---------------|----------------------------------------------|------------------------------|--------------------------------|--------------------------------------|-----------------|-----------------|-----------------------------|------------------|---------|-------------------------------|---------------------------|--------------|
|                                                                              | HK\$ Mn       | HK\$ Mn                                      | HK\$ Mn                      | HK\$ Mn                        | HK\$ Mn                              | HK\$ Mn         | HK\$ Mn         | HK\$ Mn                     | HK\$ Mn          | HK\$ Mn | HK\$ Mn                       | HK\$ Mn                   | HK\$ Mn      |
| At 1 <sup>st</sup> January, 2016                                             | 33,815        | 90                                           | (162)                        | 1,383                          | 1,639                                | 230             | 13,953          | 4,666                       | 21,799           | 77,413  | 5,016                         | 3,212                     | 85,641       |
| Changes in equity                                                            |               |                                              |                              |                                |                                      |                 |                 |                             |                  |         |                               |                           |              |
| Profit for the year                                                          | -             | -                                            | -                            | -                              | -                                    | -               | -               | -                           | 3,723            | 3,723   | -                             | 106                       | 3,829        |
| Other comprehensive income                                                   | -             | -                                            | (2,113)                      | (24)                           | 151                                  | -               | -               | 147                         | -                | (1,839) | -                             | (31)                      | (1,870)      |
| Total comprehensive income                                                   | -             | -                                            | (2,113)                      | (24)                           | 151                                  | -               | -               | 147                         | 3,723            | 1,884   | -                             | 75                        | 1,959        |
| Shares issued in lieu of dividend (Note 1(c))                                | 1,663         | -                                            | -                            | -                              | -                                    | -               | -               | -                           | -                | 1,663   | -                             | -                         | 1,663        |
| Shares issued under Staff Share Option Schemes (Note 1(c))                   | 11            | -                                            | -                            | -                              | -                                    | -               | -               | -                           | -                | 11      | -                             | -                         | 11           |
| Equity settled share-based transaction                                       | -             | 35                                           | -                            | -                              | -                                    | -               | -               | -                           | -                | 35      | -                             | -                         | 35           |
| Transfer                                                                     | 1             | (1)                                          | -                            | -                              | (62)                                 | -               | 82              | 489                         | (509)            | -       | -                             | -                         | -            |
| Dividends declared or approved during the year                               | -             | -                                            | -                            | -                              | -                                    | -               | -               | -                           | (2,560)          | (2,560) | -                             | (60)                      | (2,620)      |
| Purchase of interests in businesses from non-controlling interests investors | -             | -                                            | -                            | -                              | -                                    | -               | -               | (9)                         | -                | (9)     | -                             | 7                         | (2)          |
| Buy back of Hybrid Tier 1 capital instruments <sup>1</sup>                   | -             | -                                            | -                            | -                              | -                                    | -               | -               | -                           | (6)              | (6)     | -                             | (45)                      | (51)         |
| At 31 <sup>st</sup> December, 2016                                           | 35,490        | 124                                          | (2,275)                      | 1,359                          | 1,728                                | 230             | 14,035          | 5,293                       | 22,447           | 78,431  | 5,016                         | 3,189                     | 86,636       |
| At 1 <sup>st</sup> January, 2015                                             | 25,217        | 84                                           | 1,970                        | 1,660                          | 1,642                                | 228             | 13,930          | 4,300                       | 19,849           | 68,880  | -                             | 4,564                     | 73,444       |
| Changes in equity                                                            |               |                                              |                              |                                |                                      |                 |                 |                             |                  |         |                               |                           |              |
| Profit for the year                                                          | -             | -                                            | -                            | -                              | -                                    | -               | -               | -                           | 5,522            | 5,522   | -                             | 116                       | 5,638        |
| Other comprehensive income                                                   | -             | -                                            | (2,132)                      | (277)                          | (3)                                  | -               | -               | (59)                        | -                | (2,471) | -                             | (25)                      | (2,496)      |
| Total comprehensive income                                                   | -             | -                                            | (2,132)                      | (277)                          | (3)                                  | -               | -               | (59)                        | 5,522            | 3,051   | -                             | 91                        | 3,142        |
| Issue of additional equity instruments <sup>2</sup>                          | -             | -                                            | -                            | -                              | -                                    | -               | -               | -                           | -                | -       | 5,016                         | -                         | 5,016        |
| Shares issued in lieu of dividend (Note 1(c))                                | 1,856         | -                                            | -                            | -                              | -                                    | -               | -               | -                           | -                | 1,856   | -                             | -                         | 1,856        |
| Subscription of new shares (Note 1(c))                                       | 6,576         | -                                            | -                            | -                              | -                                    | -               | -               | -                           | -                | 6,576   | -                             | -                         | 6,576        |
| Shares issued under Staff Share Option Schemes (Note 1(c))                   | 150           | -                                            | -                            | -                              | -                                    | -               | -               | -                           | -                | 150     | -                             | -                         | 150          |
| Equity settled share-based transaction                                       | -             | 22                                           | -                            | -                              | -                                    | -               | -               | -                           | -                | 22      | -                             | -                         | 22           |
| Transfer                                                                     | 16            | (16)                                         | -                            | -                              | -                                    | 2               | 23              | 425                         | (450)            | -       | -                             | -                         | -            |
| Dividends declared or approved during the year                               | -             | -                                            | -                            | -                              | -                                    | -               | -               | -                           | (2,911)          | (2,911) | -                             | (82)                      | (2,993)      |
| Buy back of Hybrid Tier 1 capital instruments <sup>3</sup>                   | -             | -                                            | -                            | -                              | -                                    | -               | -               | -                           | (211)            | (211)   | -                             | (1,361)                   | (1,572)      |
| At 31 <sup>st</sup> December, 2015                                           | 33,815        | 90                                           | (162)                        | 1,383                          | 1,639                                | 230             | 13,953          | 4,666                       | 21,799           | 77,413  | 5,016                         | 3,212                     | 85,641       |

- During the year, the Bank bought back HK\$45 million Hybrid Tier 1 capital instruments which are classified as non-controlling interests in the consolidated financial statements. The purchase premium of HK\$6 million paid in excess of the carrying amount of the non-controlling interests acquired was charged to retained profits.
- In 2015, the Bank issued HK\$5,038 million (USD650 million) undated non-cumulative subordinated Additional Tier 1 capital securities ("AT1"). Direct issuance costs of HK\$22 million are accounted for as a deduction from the equity instruments.
- In 2015, the Bank bought back HK\$1,361 million Hybrid Tier 1 capital instruments which are classified as non-controlling interests in the consolidated financial statements, through exchange offer with AT1 (HK\$672 million) and tender offer (HK\$900 million). The purchase premium of HK\$211 million paid in excess of the carrying amount of the non-controlling interests acquired was charged to retained profits.
- Other reserves include statutory reserve and other reserves.

## Consolidated Cash Flow Statement

|                                                                                                      | Notes | 2016<br>HK\$ Mn | 2015<br>Restated<br>HK\$ Mn |
|------------------------------------------------------------------------------------------------------|-------|-----------------|-----------------------------|
| <b>OPERATING ACTIVITIES</b>                                                                          |       |                 |                             |
| Profit for the year before taxation                                                                  |       | 4,957           | 6,749                       |
| Adjustments for:                                                                                     |       |                 |                             |
| Charge for impairment losses on loans and receivables                                                |       | 3,465           | 2,042                       |
| Charge for impairment losses on available-for-sale financial assets                                  |       | 1               | 17                          |
| Share of profits less losses of associates                                                           |       | (431)           | (558)                       |
| Net profit on sale of held-to-maturity investments                                                   |       | (10)            | (3)                         |
| Net profit on sale of available-for-sale financial assets                                            |       | (96)            | (257)                       |
| Net profit on disposal of subsidiaries and associates                                                |       | -               | (2)                         |
| Net profit on sale of disposal groups and assets held for sale                                       |       | (99)            | -                           |
| Net gain on disposal of fixed assets                                                                 |       | (859)           | (109)                       |
| Interest expense on certificates of deposit, debt securities and loan capital issued                 |       | 1,582           | 1,843                       |
| Depreciation on fixed assets                                                                         |       | 500             | 523                         |
| Dividend income from available-for-sale financial assets                                             |       | (36)            | (40)                        |
| Amortisation of intangible assets                                                                    | 11    | 32              | 32                          |
| Amortisation of premium/discount on certificates of deposit, debt securities and loan capital issued |       | 170             | 236                         |
| Revaluation gains on certificates of deposit, debt securities and loan capital issued                |       | (152)           | (45)                        |
| Valuation gains on investment properties                                                             |       | (63)            | (549)                       |
| Equity settled share-based payment expenses                                                          | 11    | 35              | 22                          |
| <b>OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL</b>                                            |       | <b>8,996</b>    | <b>9,901</b>                |
| (Increase)/decrease in operating assets:                                                             |       |                 |                             |
| Cash and balances with banks with original maturity beyond three months                              |       | (1,207)         | 7,644                       |
| Placements with banks and other financial institutions with original maturity beyond three months    |       | 9,585           | 5,407                       |
| Trade bills                                                                                          |       | 7,593           | 41,143                      |
| Trading assets                                                                                       |       | 491             | (906)                       |
| Financial assets designated at fair value through profit or loss                                     |       | 782             | 4,377                       |
| Positive fair value of derivatives                                                                   |       | (2,733)         | (2,668)                     |
| Advances to customers                                                                                |       | (14,460)        | 881                         |
| Advances to banks and other financial institutions                                                   |       | 31              | 24                          |
| Held-to-maturity debt securities                                                                     |       | 469             | (208)                       |
| Available-for-sale financial assets                                                                  |       | (19,600)        | (10,436)                    |
| Other accounts and accrued interest                                                                  |       | (4,275)         | 6,397                       |
| Increase/(decrease) in operating liabilities:                                                        |       |                 |                             |
| Deposits and balances of banks and other financial institutions                                      |       | (5,651)         | (1,197)                     |
| Deposits from customers                                                                              |       | (4,954)         | (7,441)                     |
| Trading liabilities                                                                                  |       | (839)           | 868                         |
| Negative fair value of derivatives                                                                   |       | 1,073           | 2,086                       |
| Other accounts and provisions                                                                        |       | 4,897           | (4,564)                     |
| Exchange adjustments                                                                                 |       | 2,456           | 1,226                       |
| <b>NET CASH (OUTFLOW)/INFLOW FROM OPERATIONS</b>                                                     |       | <b>(17,346)</b> | <b>52,534</b>               |
| Income tax paid                                                                                      |       |                 |                             |
| Hong Kong profits tax paid                                                                           |       | (565)           | (794)                       |
| Outside Hong Kong profits tax paid                                                                   |       | (832)           | (383)                       |
| <b>NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES</b>                                        |       | <b>(18,743)</b> | <b>51,357</b>               |

|                                                                              |      | 2016     | 2015                |
|------------------------------------------------------------------------------|------|----------|---------------------|
|                                                                              |      | HK\$ Mn  | Restated<br>HK\$ Mn |
| INVESTING ACTIVITIES                                                         |      |          |                     |
| Dividends received from associates                                           |      | 76       | 35                  |
| Dividends received from available-for-sale equity securities                 |      | 36       | 40                  |
| Purchase of equity securities                                                |      | (3,984)  | (2,174)             |
| Proceeds from sale of equity securities                                      |      | 3,608    | 1,931               |
| Purchase of fixed assets                                                     |      | (448)    | (446)               |
| Purchase of investment properties                                            |      | -        | (20)                |
| Proceeds from disposal of other properties and equipment                     |      | 1,142    | 158                 |
| Proceeds from disposal of investment properties                              |      | 624      | -                   |
| Proceeds from sale of disposal groups and assets held for sale               |      | 746      | -                   |
| Purchase of shareholding in associates                                       |      | -        | (61)                |
| Proceeds from disposal of an associate                                       |      | -        | 1                   |
| Purchase of subsidiaries                                                     |      | -        | (1)                 |
| Purchase of interests in businesses from non-controlling interests investors |      | 7        | -                   |
| NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES                       |      | 1,807    | (537)               |
| FINANCING ACTIVITIES                                                         |      |          |                     |
| Ordinary dividends paid                                                      |      | (468)    | (817)               |
| Distribution to Hybrid/Additional Tier 1 issue holders                       | 2(c) | (489)    | (320)               |
| Subscription of new shares                                                   | 1(c) | -        | 6,576               |
| Issue of ordinary share capital                                              | 1(c) | 11       | 150                 |
| Issue of additional equity instruments                                       |      | -        | 4,344               |
| Issue of certificates of deposit                                             |      | 40,284   | 61,503              |
| Issue of debt securities                                                     |      | 695      | 11,150              |
| Issue of loan capital                                                        |      | 3,871    | -                   |
| Buy-back of Hybrid Tier 1 issued                                             |      | (51)     | (900)               |
| Redemption of certificates of deposit issued                                 |      | (48,325) | (68,298)            |
| Redemption of debt securities issued                                         |      | (7,119)  | (19,462)            |
| Interest paid on loan capital                                                |      | (921)    | (901)               |
| Interest paid on certificates of deposit issued                              |      | (499)    | (731)               |
| Interest paid on debt securities issued                                      |      | (205)    | (402)               |
| NET CASH USED IN FINANCING ACTIVITIES                                        |      | (13,216) | (8,108)             |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS                         |      | (30,152) | 42,712              |
| CASH AND CASH EQUIVALENTS AT 1ST JANUARY                                     |      | 110,966  | 71,986              |
| Effect of foreign exchange rate changes                                      |      | (4,973)  | (3,732)             |
| CASH AND CASH EQUIVALENTS AT 31ST DECEMBER                                   |      | 75,841   | 110,966             |
| Cash flows from operating activities included:                               |      |          |                     |
| Interest received                                                            |      | 20,756   | 23,857              |
| Interest paid                                                                |      | 9,725    | 12,238              |
| Dividend received                                                            |      | 75       | 80                  |

## Notes to the Financial Statements

1. (a) The financial information relating to the years ended 31<sup>st</sup> December, 2016 and 2015 included in this announcement of 2016 final results do not constitute the Group's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31<sup>st</sup> December, 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31<sup>st</sup> December, 2016 in due course.

The Bank's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 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 year and profit from continuing operations attributable to owners of the parent of HK\$3,228 million and HK\$3,010 million (2015: HK\$4,991 million and HK\$4,774 million) respectively after the distribution of HK\$489 million (2015: HK\$320 million) to Hybrid/Additional Tier 1 issue holders and deduction of HK\$6 million (2015: HK\$211 million) premium paid to partial bought back/redemption of Hybrid Tier 1 capital instruments, and on the weighted average of 2,678 million (2015: 2,561 million) ordinary shares outstanding during the year.
- (ii) The calculation of diluted earnings per share is based on the consolidated profit for the year and profit from continuing operations attributable to owners of the parent of HK\$3,228 million and HK\$3,010 million (2015: HK\$4,991 million and HK\$4,774 million) respectively after the distribution of HK\$489 million (2015: HK\$320 million) to Hybrid/Additional Tier 1 issue holders and deduction of HK\$6 million (2015: HK\$211 million) premium paid to partial bought back/redemption of Hybrid Tier 1 capital instruments, and on 2,678 million (2015: 2,561 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

### (c) Share capital

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

|                                                                                   | 2016          |               | 2015          |               |
|-----------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|
|                                                                                   | No. of shares |               | No. of shares |               |
|                                                                                   | Mn            | HK\$ Mn       | Mn            | HK\$ Mn       |
| Ordinary shares, issued and fully paid:                                           |               |               |               |               |
| At 1 <sup>st</sup> January                                                        | 2,641         | 33,815        | 2,347         | 25,217        |
| Subscription of new shares                                                        | -             | -             | 223           | 6,576         |
| Shares issued under Staff Share Option Schemes                                    | -             | 11            | 5             | 150           |
| Transfer of the fair value of options from capital reserve – share options issued | -             | 1             | -             | 16            |
| Shares issued in lieu of dividend                                                 | 62            | 1,663         | 66            | 1,856         |
| At 31 <sup>st</sup> December                                                      | <u>2,703</u>  | <u>35,490</u> | <u>2,641</u>  | <u>33,815</u> |

## 2. Dividends

### (a) Dividends attributable to the year

|                                                                                                                                                                                                                                                                                    | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Interim dividend declared and paid of HK\$0.28 per share on 2,684 million shares (2015: HK\$0.38 per share on 2,617 million shares)                                                                                                                                                | 751             | 994             |
| 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\$0.50 per share (2015: HK\$0.68 per share) | -               | 1               |
| Second interim dividend of HK\$0.28 per share on 2,703 million shares (2015: HK\$0.50 per share on 2,641 million shares)                                                                                                                                                           | 757             | 1,320           |
|                                                                                                                                                                                                                                                                                    | <u>1,508</u>    | <u>2,315</u>    |

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

### (b) Dividends attributable to the previous financial year, approved and paid during the year

|                                                                                                                                                                                                        | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Second interim dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.50 per share on 2,641 million shares (2015: HK\$0.68 per share on 2,347 million shares) | <u>1,320</u>    | <u>1,597</u>    |

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

|                                                                   | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|-------------------------------------------------------------------|-----------------|-----------------|
| Interest paid or payable on the Hybrid Tier 1 capital instruments | 211             | 320             |
| Amount paid on the Additional Tier 1 capital instruments          | <u>278</u>      | <u>-</u>        |
|                                                                   | <u>489</u>      | <u>320</u>      |

## 3. Interest Income

|                                                                       | 2016<br>HK\$ Mn | 2015<br>Restated<br>HK\$ Mn |
|-----------------------------------------------------------------------|-----------------|-----------------------------|
| CONTINUING OPERATIONS                                                 |                 |                             |
| Securities classified as held-to-maturity or available-for-sale       | 2,603           | 2,458                       |
| Trading assets                                                        | 134             | 159                         |
| Financial assets designated at fair value through profit or loss      | 129             | 141                         |
| Loans, deposits with banks and financial institutions and trade bills | <u>17,497</u>   | <u>20,823</u>               |
|                                                                       | <u>20,363</u>   | <u>23,581</u>               |

Included above is interest income accrued on impaired financial assets of HK\$404 million (2015: HK\$339 million) which includes interest income on unwinding of discount on loan impairment losses of HK\$144 million (2015: HK\$110 million) for the year ended 31<sup>st</sup> December, 2016.

Included within interest income is HK\$20,396 million (2015 restated: HK\$23,506 million), before hedging effect, for financial assets that are not recognised at fair value through profit or loss.

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

#### 4. Interest Expense

|                                                                       | 2016         | 2015<br>Restated |
|-----------------------------------------------------------------------|--------------|------------------|
|                                                                       | HK\$ Mn      | HK\$ Mn          |
| CONTINUING OPERATIONS                                                 |              |                  |
| Customer deposits, deposits of banks and other financial institutions | 7,887        | 10,085           |
| Certificates of deposit and debt securities issued                    |              |                  |
| – at amortised cost                                                   | 364          | 637              |
| – designated at fair value through profit or loss                     | 236          | 263              |
| Subordinated notes carried at amortised cost                          | 776          | 650              |
| Other borrowings                                                      | 2            | 17               |
|                                                                       | <u>9,265</u> | <u>11,652</u>    |

Included within interest expense is HK\$9,205 million (2015 restated: HK\$11,641 million), before hedging effect, for financial liabilities that are not recognised at fair value through profit or loss.

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

#### 5. Fee and Commission Income

Fee and commission income arises from the following services:

|                                      | 2016         | 2015<br>Restated |
|--------------------------------------|--------------|------------------|
|                                      | HK\$ Mn      | HK\$ Mn          |
| CONTINUING OPERATIONS                |              |                  |
| Credit cards                         | 1,003        | 947              |
| Loans, overdrafts and guarantees     | 733          | 861              |
| Trade finance                        | 338          | 481              |
| Other retail banking services        | 324          | 353              |
| Trust and other fiduciary activities | 241          | 187              |
| Securities and brokerage             | 215          | 449              |
| Others                               | 631          | 544              |
|                                      | <u>3,485</u> | <u>3,822</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 held for trading nor designated at fair value through profit or loss

|              |       |       |
|--------------|-------|-------|
|              | 2,612 | 2,931 |
| Fee income   | 3,485 | 3,822 |
| Fee expenses | (873) | (891) |

## 6. Net Trading Profits

|                                                         | 2016       | 2015<br>Restated |
|---------------------------------------------------------|------------|------------------|
|                                                         | HK\$ Mn    | HK\$ Mn          |
| CONTINUING OPERATIONS                                   |            |                  |
| Loss on dealing in foreign currencies and funding swaps | (230)      | (436)            |
| (Loss)/Profit on trading securities                     | (135)      | 63               |
| Net gain on derivatives                                 | 806        | 566              |
| Dividend income from listed trading securities          | 39         | 40               |
|                                                         | <u>480</u> | <u>233</u>       |

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

|                                           | 2016        | 2015        |
|-------------------------------------------|-------------|-------------|
|                                           | HK\$ Mn     | HK\$ Mn     |
| CONTINUING OPERATIONS                     |             |             |
| Revaluation (loss)/gain on debts issued   | (11)        | 13          |
| Profit on repurchase of debts issued      | -           | 3           |
| Revaluation loss on financial assets      | (84)        | (49)        |
| Profit/(Loss) on sale of financial assets | 3           | (2)         |
|                                           | <u>(92)</u> | <u>(35)</u> |

## 8. Net Hedging Loss

|                                                                   | 2016        | 2015        |
|-------------------------------------------------------------------|-------------|-------------|
|                                                                   | HK\$ Mn     | HK\$ Mn     |
| CONTINUING OPERATIONS                                             |             |             |
| Fair value hedges                                                 |             |             |
| - Net (loss)/gain on hedged items attributable to the hedged risk | (435)       | 71          |
| - Net gain/(loss) on hedging instruments                          | 413         | (81)        |
|                                                                   | <u>(22)</u> | <u>(10)</u> |

There was insignificant ineffectiveness recognised in the Group's income statement arising from cash flow hedge for the years 2016 and 2015.

## 9. Net Insurance Revenue

|                                                                                     | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|-------------------------------------------------------------------------------------|-----------------|-----------------|
| CONTINUING OPERATIONS                                                               |                 |                 |
| (a) Net insurance revenue                                                           |                 |                 |
| Net interest income                                                                 | 397             | 354             |
| Net trading loss                                                                    | (14)            | (12)            |
| Net loss from financial instruments designated at fair value through profit or loss | (4)             | (5)             |
| Net hedging loss                                                                    | (3)             | (3)             |
| Net insurance premium and other income (b)                                          | 3,347           | 2,758           |
| Other operating income                                                              | 1               | 3               |
|                                                                                     | <u>3,724</u>    | <u>3,095</u>    |
| Net insurance claims and expenses (c)                                               | <u>(3,441)</u>  | <u>(2,833)</u>  |
|                                                                                     | 283             | 262             |
| Operating expenses                                                                  | (3)             | (3)             |
| Impairment loss on available-for-sale financial assets                              | (30)            | (60)            |
| Net profit on sale of available-for-sale financial assets                           | 165             | 173             |
|                                                                                     | <u>415</u>      | <u>372</u>      |
| <br>(b) Net insurance premium and other income                                      |                 |                 |
| Gross insurance premium income                                                      | 3,417           | 2,958           |
| Reinsurer's share of gross insurance premium income                                 | (70)            | (200)           |
|                                                                                     | <u>3,347</u>    | <u>2,758</u>    |
| <br>(c) Net insurance claims and expenses                                           |                 |                 |
| Claims, benefits and surrenders paid                                                | 2,840           | 1,906           |
| Movement in provisions                                                              | 466             | 848             |
|                                                                                     | <u>3,306</u>    | <u>2,754</u>    |
| Reinsurers' share of claim, benefits and surrenders paid                            | (751)           | (50)            |
| Reinsurers' share of movement in provisions                                         | 735             | (5)             |
|                                                                                     | <u>(16)</u>     | <u>(55)</u>     |
|                                                                                     | 3,290           | 2,699           |
| Net insurance commission expenses                                                   | 151             | 134             |
|                                                                                     | <u>3,441</u>    | <u>2,833</u>    |

## 10. Other Operating Income

|                                                          | 2016<br>HK\$ Mn | 2015<br>Restated<br>HK\$ Mn |
|----------------------------------------------------------|-----------------|-----------------------------|
| CONTINUING OPERATIONS                                    |                 |                             |
| Dividend income from available-for-sale financial assets |                 |                             |
| - listed                                                 | 18              | 16                          |
| - unlisted                                               | 18              | 22                          |
| Rental from safe deposit boxes                           | 86              | 86                          |
| Rental income on properties                              | 205             | 221                         |
| Others                                                   | 51              | 128                         |
|                                                          | <u>378</u>      | <u>473</u>                  |

## 11. Operating Expenses

|                                                                      | 2016    | 2015                |
|----------------------------------------------------------------------|---------|---------------------|
|                                                                      | HK\$ Mn | Restated<br>HK\$ Mn |
| CONTINUING OPERATIONS                                                |         |                     |
| Contributions to defined contribution plan                           |         |                     |
| - Hong Kong                                                          | 150     | 150                 |
| - Outside Hong Kong                                                  | 336     | 335                 |
| Equity settled share-based payment expenses                          | 35      | 22                  |
| Salaries and other staff costs                                       | 4,193   | 4,211               |
| Total staff costs                                                    | 4,714   | 4,718               |
| Premises and equipment expenses excluding depreciation               |         |                     |
| - Rental of premises                                                 | 619     | 613                 |
| - Maintenance, repairs and others                                    | 558     | 552                 |
| Total premises and equipment expenses excluding depreciation         | 1,177   | 1,165               |
| Depreciation on fixed assets                                         | 468     | 495                 |
| Amortisation of intangible assets                                    | 32      | 32                  |
| Other operating expenses                                             |         |                     |
| - Legal and professional fees                                        | 460     | 451                 |
| - Communications, stationery and printing                            | 285     | 331                 |
| - Stamp duty, overseas and PRC business taxes, and value added taxes | 268     | 642                 |
| - Advertising expenses                                               | 250     | 334                 |
| - Card related expenses                                              | 171     | 150                 |
| - Business promotions and business travel                            | 142     | 185                 |
| - Insurance expenses                                                 | 64      | 55                  |
| - Membership fees                                                    | 18      | 16                  |
| - Audit fee                                                          | 16      | 15                  |
| - Bank charges                                                       | 8       | 9                   |
| - Bank licence                                                       | 4       | 4                   |
| - Donations                                                          | 4       | 4                   |
| - Others                                                             | 261     | 298                 |
| Total other operating expenses                                       | 1,951   | 2,494               |
| Total operating expenses                                             | 8,342   | 8,904               |

## 12. Net Profit on Sale of Available-for-Sale Financial Assets

|                                                | 2016    | 2015    |
|------------------------------------------------|---------|---------|
|                                                | HK\$ Mn | HK\$ Mn |
| CONTINUING OPERATIONS                          |         |         |
| Net revaluation gain transferred from reserves | 136     | 327     |
| Loss arising in current year                   | (44)    | (70)    |
|                                                | 92      | 257     |

### 13. Net Gain on Disposal of Fixed Assets

|                                                                          | 2016       | 2015<br>Restated |
|--------------------------------------------------------------------------|------------|------------------|
|                                                                          | HK\$ Mn    | HK\$ Mn          |
| CONTINUING OPERATIONS                                                    |            |                  |
| Net gain on disposal of investment properties                            | 144        | -                |
| Net gain on disposal of bank premises, furniture, fixtures and equipment | 715        | 110              |
|                                                                          | <u>859</u> | <u>110</u>       |

### 14. Income Tax

Taxation in the consolidated income statement represents:

|                                                        | 2016         | 2015<br>Restated |
|--------------------------------------------------------|--------------|------------------|
|                                                        | HK\$ Mn      | HK\$ Mn          |
| CONTINUING OPERATIONS                                  |              |                  |
| Current tax – Hong Kong                                |              |                  |
| Tax for the year                                       | 687          | 740              |
| Under-provision in respect of prior years              | 36           | 32               |
|                                                        | <u>723</u>   | <u>772</u>       |
| Current tax – outside Hong Kong                        |              |                  |
| Tax for the year *                                     | 1,026        | 583              |
| Write back of over-provision in respect of prior years | (58)         | (65)             |
|                                                        | <u>968</u>   | <u>518</u>       |
| Deferred tax                                           |              |                  |
| Origination and reversal of temporary differences      | (624)        | (241)            |
|                                                        | <u>1,067</u> | <u>1,049</u>     |

*\* During the year, certain properties in Mainland China were disposed of, which resulted in an impact of land value added tax and corporate income tax totalling HK\$427 million.*

The provision for Hong Kong profits tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year.

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

## 15. Trading Assets

|                                                | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|------------------------------------------------|-----------------|-----------------|
| Treasury bills (including Exchange Fund Bills) | 1,034           | 1,178           |
| Certificates of deposits held                  | 431             | 1,192           |
| Debt securities                                | 1,663           | 1,620           |
| Equity securities                              | 1,276           | 1,345           |
|                                                | <u>4,404</u>    | <u>5,335</u>    |
| Issued by:                                     |                 |                 |
| Central governments and central banks          | 1,046           | 1,189           |
| Public sector entities                         | 6               | 8               |
| Banks and other financial institutions         | 1,320           | 2,768           |
| Corporate entities                             | 2,003           | 1,370           |
| Other entities                                 | 29              | -               |
|                                                | <u>4,404</u>    | <u>5,335</u>    |
| Analysed by place of listing:                  |                 |                 |
| Debt securities                                |                 |                 |
| Listed in Hong Kong                            | 12              | 11              |
| Listed outside Hong Kong                       | 756             | 25              |
|                                                | <u>768</u>      | <u>36</u>       |
| Unlisted                                       | 2,360           | 3,954           |
|                                                | <u>3,128</u>    | <u>3,990</u>    |
| Equity securities                              |                 |                 |
| Listed in Hong Kong                            | 1,100           | 1,124           |
| Listed outside Hong Kong                       | 176             | 221             |
|                                                | <u>1,276</u>    | <u>1,345</u>    |
|                                                | <u>4,404</u>    | <u>5,335</u>    |

# 16. Financial Assets Designated at Fair Value through Profit or Loss

|                                        | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|----------------------------------------|-----------------|-----------------|
| Certificates of deposits held          | -               | 476             |
| Debt securities                        | 3,330           | 3,410           |
| Equity securities                      | 155             | 326             |
| Investment funds                       | 69              | 124             |
|                                        | <u>3,554</u>    | <u>4,336</u>    |
| Issued by:                             |                 |                 |
| Central governments and central banks  | 169             | 90              |
| Banks and other financial institutions | 1,260           | 2,012           |
| Corporate entities                     | 2,056           | 2,110           |
| Other entities                         | 69              | 124             |
|                                        | <u>3,554</u>    | <u>4,336</u>    |
| Analysed by place of listing:          |                 |                 |
| Debt securities                        |                 |                 |
| Listed in Hong Kong                    | 898             | 797             |
| Listed outside Hong Kong               | 1,036           | 1,589           |
|                                        | <u>1,934</u>    | <u>2,386</u>    |
| Unlisted                               | 1,396           | 1,500           |
|                                        | <u>3,330</u>    | <u>3,886</u>    |
| Equity securities                      |                 |                 |
| Listed in Hong Kong                    | 48              | 116             |
| Listed outside Hong Kong               | 107             | 210             |
|                                        | <u>155</u>      | <u>326</u>      |
| Investment funds                       |                 |                 |
| Listed in Hong Kong                    | 2               | 20              |
| Listed outside Hong Kong               | 7               | 15              |
|                                        | <u>9</u>        | <u>35</u>       |
| Unlisted                               | 60              | 89              |
|                                        | <u>69</u>       | <u>124</u>      |
|                                        | <u>3,554</u>    | <u>4,336</u>    |

## 17. Advances to Customers and Other Accounts

### (a) Advances to customers and other accounts

|                                                    | 2016<br>HK\$ Mn       | 2015<br>HK\$ Mn       |
|----------------------------------------------------|-----------------------|-----------------------|
| (i) Advances to customers                          | 454,242               | 441,506               |
| Less: Impairment allowances                        |                       |                       |
| - Individual                                       | (1,715)               | (1,021)               |
| - Collective                                       | (2,082)               | (1,360)               |
|                                                    | <u>450,445</u>        | <u>439,125</u>        |
| (ii) Other accounts                                |                       |                       |
| Advances to banks and other financial institutions | -                     | 31                    |
| Less: Impairment allowances – Individual           | -                     | (1)                   |
|                                                    | <u>-</u>              | <u>30</u>             |
| Notes and bonds                                    | -                     | 1                     |
| Accrued interest                                   | 2,247                 | 2,635                 |
| Customer liabilities under acceptances             | 25,084                | 20,602                |
| Other accounts                                     | 9,324                 | 9,778                 |
|                                                    | <u>36,655</u>         | <u>33,016</u>         |
| Less: Impairment allowances                        |                       |                       |
| - Individual                                       | (85)                  | (19)                  |
| - Collective                                       | (1)                   | (19)                  |
|                                                    | <u>36,569</u>         | <u>32,978</u>         |
| (iii) Assets held for sale (Note 25)               | <u>2,506</u>          | <u>955</u>            |
|                                                    | <u><u>489,520</u></u> | <u><u>473,088</u></u> |

(b) Advances to customers – by industry sectors

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

|                                                                                                                                 | 2016           |                       | 2015           |                       |
|---------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------------|----------------|-----------------------|
|                                                                                                                                 | Gross advances | % of secured advances | Gross advances | % of secured advances |
|                                                                                                                                 | HK\$ Mn        | %                     | HK\$ Mn        | %                     |
| Loans for use in Hong Kong                                                                                                      |                |                       |                |                       |
| Industrial, commercial and financial                                                                                            |                |                       |                |                       |
| - Property development                                                                                                          | 21,934         | 78.46                 | 13,009         | 67.44                 |
| - Property investment                                                                                                           | 38,224         | 92.41                 | 41,890         | 87.44                 |
| - Financial concerns                                                                                                            | 10,296         | 64.91                 | 10,011         | 70.44                 |
| - Stockbrokers                                                                                                                  | 2,988          | 93.10                 | 2,894          | 85.34                 |
| - Wholesale and retail trade                                                                                                    | 14,821         | 72.21                 | 18,250         | 67.56                 |
| - Manufacturing                                                                                                                 | 2,925          | 58.21                 | 4,494          | 55.72                 |
| - Transport and transport equipment                                                                                             | 5,633          | 69.60                 | 5,758          | 80.15                 |
| - Recreational activities                                                                                                       | 171            | 73.50                 | 155            | 56.66                 |
| - Information technology                                                                                                        | 2,596          | 0.51                  | 1,251          | 27.87                 |
| - Others                                                                                                                        | 18,720         | 79.83                 | 21,370         | 76.27                 |
| - Sub-total                                                                                                                     | 118,308        | 78.95                 | 119,082        | 76.51                 |
| Individuals                                                                                                                     |                |                       |                |                       |
| - Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 988            | 100.00                | 1,050          | 100.00                |
| - Loans for the purchase of other residential properties                                                                        | 40,750         | 100.00                | 40,805         | 100.00                |
| - Credit card advances                                                                                                          | 4,540          | 0.00                  | 4,552          | 0.00                  |
| - Others                                                                                                                        | 27,301         | 86.84                 | 21,191         | 83.99                 |
| - Sub-total                                                                                                                     | 73,579         | 88.95                 | 67,598         | 88.25                 |
| Total loans for use in Hong Kong                                                                                                | 191,887        | 82.78                 | 186,680        | 80.76                 |
| Trade finance                                                                                                                   | 5,390          | 74.86                 | 5,998          | 66.66                 |
| Loans for use outside Hong Kong *                                                                                               | 256,965        | 59.76                 | 248,828        | 66.25                 |
| Total advances to customers                                                                                                     | 454,242        | 69.67                 | 441,506        | 72.39                 |

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

|                                                        | 2016           |                       | 2015           |                       |
|--------------------------------------------------------|----------------|-----------------------|----------------|-----------------------|
|                                                        | Gross advances | % of secured advances | Gross advances | % of secured advances |
|                                                        | HK\$ Mn        | %                     | HK\$ Mn        | %                     |
| Property development                                   | 42,140         | 54.91                 | 42,468         | 60.86                 |
| Property investment                                    | 28,940         | 94.63                 | 33,439         | 95.63                 |
| Wholesale and retail trade                             | 14,639         | 67.90                 | 22,931         | 75.90                 |
| Manufacturing                                          | 7,504          | 44.43                 | 8,687          | 46.67                 |
| Loans for the purchase of other residential properties | 15,982         | 99.98                 | 18,393         | 99.99                 |
| Others                                                 | 63,222         | 29.69                 | 58,854         | 39.44                 |
|                                                        | 172,427        | 57.15                 | 184,772        | 65.42                 |

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:

|                                                    | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|----------------------------------------------------|-----------------|-----------------|
| (i) Property development                           |                 |                 |
| a. Individually impaired loans                     | 67              | 39              |
| b. Individual impairment allowance                 | 8               | 5               |
| c. Collective impairment allowance                 | 382             | 222             |
| d. Provision charged to income statement           |                 |                 |
| - individual impairment loss                       | 49              | 174             |
| - collective impairment loss                       | 249             | 136             |
| e. Written off                                     | 8               | -               |
| (ii) Property investment                           |                 |                 |
| a. Individually impaired loans                     | 932             | 598             |
| b. Individual impairment allowance                 | 77              | 24              |
| c. Collective impairment allowance                 | 401             | 269             |
| d. Provision charged to income statement           |                 |                 |
| - individual impairment loss                       | 214             | 63              |
| - collective impairment loss                       | 213             | 130             |
| e. Written off                                     | 146             | 33              |
| (iii) Loans for purchase of residential properties |                 |                 |
| a. Individually impaired loans                     | 355             | 356             |
| b. Individual impairment allowance                 | 6               | 23              |
| c. Collective impairment allowance                 | 209             | 141             |
| d. Provision charged to income statement           |                 |                 |
| - individual impairment loss                       | 111             | 80              |
| - collective impairment loss                       | 91              | 57              |
| e. Written off                                     | 44              | 50              |
| (iv) Wholesale and retail trade                    |                 |                 |
| a. Individually impaired loans                     | 2,317           | 1,455           |
| b. Individual impairment allowance                 | 808             | 502             |
| c. Collective impairment allowance                 | 184             | 146             |
| d. Provision charged to income statement           |                 |                 |
| - individual impairment loss                       | 1,680           | 727             |
| - collective impairment loss                       | 108             | 74              |
| e. Written off                                     | 928             | 189             |
| (v) Hotels                                         |                 |                 |
| a. Individually impaired loans                     | 981             | 912             |
| b. Individual impairment allowance                 | 330             | 56              |
| c. Collective impairment allowance                 | 72              | 63              |
| d. Provision charged to income statement           |                 |                 |
| - individual impairment loss                       | 433             | 62              |
| - collective impairment loss                       | 40              | 29              |
| e. Written off                                     | 379             | 62              |

(c) Advances to customers – by geographical areas

The information concerning the breakdown of the gross amount of advances to customers by countries or geographical areas is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

|                            | 2016                        |                                        |                                |                                 |                                 |
|----------------------------|-----------------------------|----------------------------------------|--------------------------------|---------------------------------|---------------------------------|
|                            | Total advances to customers | Advances overdue for over three months | Impaired advances to customers | Individual impairment allowance | Collective impairment allowance |
|                            | HK\$ Mn                     | HK\$ Mn                                | HK\$ Mn                        | HK\$ Mn                         | HK\$ Mn                         |
| Hong Kong                  | 194,181                     | 721                                    | 2,164                          | 260                             | 416                             |
| People's Republic of China | 202,984                     | 3,389                                  | 4,312                          | 1,428                           | 1,495                           |
| Other Asian Countries      | 19,712                      | 76                                     | 238                            | 26                              | 59                              |
| Others                     | 37,365                      | 3                                      | 53                             | 1                               | 112                             |
| Total                      | <u>454,242</u>              | <u>4,189</u>                           | <u>6,767</u>                   | <u>1,715</u>                    | <u>2,082</u>                    |

% of total advances to customers

1.49%

Market value of security held against impaired advances to customers

9,830

|                            | 2015                        |                                        |                                |                                 |                                 |
|----------------------------|-----------------------------|----------------------------------------|--------------------------------|---------------------------------|---------------------------------|
|                            | Total advances to customers | Advances overdue for over three months | Impaired advances to customers | Individual impairment allowance | Collective impairment allowance |
|                            | HK\$ Mn                     | HK\$ Mn                                | HK\$ Mn                        | HK\$ Mn                         | HK\$ Mn                         |
| Hong Kong                  | 181,968                     | 243                                    | 643                            | 152                             | 263                             |
| People's Republic of China | 212,621                     | 3,809                                  | 4,037                          | 818                             | 978                             |
| Other Asian Countries      | 19,376                      | 22                                     | 155                            | 35                              | 51                              |
| Others                     | 27,541                      | 5                                      | 138                            | 16                              | 68                              |
| Total                      | <u>441,506</u>              | <u>4,079</u>                           | <u>4,973</u>                   | <u>1,021</u>                    | <u>1,360</u>                    |

% of total advances to customers

1.13%

Market value of security held against impaired advances to customers

8,239

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.

## 18. Available-for-Sale Financial Assets

|                                                | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|------------------------------------------------|-----------------|-----------------|
| Treasury bills (including Exchange Fund Bills) | 18,795          | 17,920          |
| Certificates of deposit held                   | 1,205           | 2,228           |
| Debt securities                                | 86,964          | 70,136          |
| Equity securities                              | 3,064           | 2,832           |
| Investment funds                               | 463             | 479             |
|                                                | <u>110,491</u>  | <u>93,595</u>   |
| Issued by:                                     |                 |                 |
| Central governments and central banks          | 21,443          | 19,013          |
| Public sector entities                         | 499             | 553             |
| Banks and other financial institutions         | 34,534          | 32,582          |
| Corporate entities                             | 53,518          | 40,927          |
| Other entities                                 | 497             | 520             |
|                                                | <u>110,491</u>  | <u>93,595</u>   |
| Analysed by place of listing:                  |                 |                 |
| Debt securities                                |                 |                 |
| Listed in Hong Kong                            | 19,786          | 18,236          |
| Listed outside Hong Kong                       | 37,569          | 21,344          |
|                                                | <u>57,355</u>   | <u>39,580</u>   |
| Unlisted                                       | 49,609          | 50,704          |
|                                                | <u>106,964</u>  | <u>90,284</u>   |
| Equity securities                              |                 |                 |
| Listed in Hong Kong                            | 831             | 800             |
| Listed outside Hong Kong                       | 1,782           | 1,501           |
|                                                | <u>2,613</u>    | <u>2,301</u>    |
| Unlisted                                       | 451             | 531             |
|                                                | <u>3,064</u>    | <u>2,832</u>    |
| Investment funds                               |                 |                 |
| Listed in Hong Kong                            | 94              | 92              |
| Listed outside Hong Kong                       | 73              | 63              |
|                                                | <u>167</u>      | <u>155</u>      |
| Unlisted                                       | 296             | 324             |
|                                                | <u>463</u>      | <u>479</u>      |
|                                                | <u>110,491</u>  | <u>93,595</u>   |

## 19. Held-to-Maturity Investments

|                                                | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|------------------------------------------------|-----------------|-----------------|
| Treasury bills (including Exchange Fund Bills) | 2,252           | 1,143           |
| Certificates of deposit held                   | 818             | 1,478           |
| Debt securities                                | 2,593           | 3,578           |
|                                                | <u>5,663</u>    | <u>6,199</u>    |
| Issued by:                                     |                 |                 |
| Central governments and central banks          | 2,993           | 1,850           |
| Public sector entities                         | 9               | 22              |
| Banks and other financial institutions         | 172             | 1,156           |
| Corporate entities                             | 2,489           | 3,171           |
|                                                | <u>5,663</u>    | <u>6,199</u>    |
| Analysed by place of listing:                  |                 |                 |
| Debt securities                                |                 |                 |
| Listed in Hong Kong                            | 2,047           | 2,673           |
| Listed outside Hong Kong                       | 1,861           | 1,588           |
|                                                | 3,908           | 4,261           |
| Unlisted                                       | 1,755           | 1,938           |
|                                                | <u>5,663</u>    | <u>6,199</u>    |
| Fair value:                                    |                 |                 |
| Listed securities                              | 3,967           | 4,309           |
| Unlisted securities                            | 1,757           | 1,940           |
|                                                | <u>5,724</u>    | <u>6,249</u>    |

## 20. Segment Reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's Senior Management for the purposes of resource allocation and performance assessment, the Group has presented the following nine reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

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

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

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

Financial institutions, which includes trade financing activities with correspondent banks in Hong Kong.

Other Hong Kong banking operations, which mainly include insurance business, trust business, securities & futures broking, money lender activities and corporate financial advisory in Hong Kong.

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

Overseas operations include the back office unit for overseas banking operations in Hong Kong, all branches, subsidiaries and associates operated in overseas, except those subsidiaries carrying out corporate services in overseas.

Corporate services include company secretarial services, share registration and business services, and offshore corporate and trust services.

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

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

Segment assets include all tangible assets, intangible assets and financial assets with the exception of interests in associates, deferred tax assets and other corporate assets. Segment liabilities include deposits, financial liabilities and other liabilities attributable to the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to interest and fee and commission income generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses do not include the Group's share of revenue and expenses arising from the activities of the Group's associates. Other than reporting inter-segment income, assistance provided by one segment to another, including sharing of assets, is not measured.

In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter-segment lending), interest expense, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations.

| 2016                                                                                                                                   |                              |                   |                  |                   |                        |         |                  |                     |                           |                           |                           |          |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------|------------------|-------------------|------------------------|---------|------------------|---------------------|---------------------------|---------------------------|---------------------------|----------|
|                                                                                                                                        | Hong Kong banking operations |                   |                  |                   |                        |         |                  |                     |                           | Total reportable segments | Inter-segment elimination |          |
|                                                                                                                                        | Personal banking             | Corporate banking | Treasury markets | Wealth management | Financial institutions | Others  | China operations | Overseas operations | Corporate Services (Note) |                           | Others                    | Total    |
|                                                                                                                                        | HK\$ Mn                      | HK\$ Mn           | HK\$ Mn          | HK\$ Mn           | HK\$ Mn                | HK\$ Mn | HK\$ Mn          | HK\$ Mn             | HK\$ Mn                   | HK\$ Mn                   | HK\$ Mn                   | HK\$ Mn  |
| CONTINUING OPERATIONS                                                                                                                  |                              |                   |                  |                   |                        |         |                  |                     |                           |                           |                           |          |
| Net interest income/(expense)                                                                                                          | 2,864                        | 2,120             | (229)            | 348               | 19                     | 268     | 4,109            | 1,292               | -                         | 10,791                    | 308                       | (1)      |
| Non-interest income/(expense)                                                                                                          | 849                          | 328               | 76               | 443               | 15                     | 625     | 830              | 159                 | -                         | 3,325                     | 781                       | (354)    |
| Operating income                                                                                                                       | 3,713                        | 2,448             | (153)            | 791               | 34                     | 893     | 4,939            | 1,451               | -                         | 14,116                    | 1,089                     | (355)    |
| Operating expenses                                                                                                                     | (1,873)                      | (197)             | (134)            | (196)             | (12)                   | (521)   | (3,402)          | (469)               | -                         | (6,804)                   | (1,893)                   | 355      |
| Operating profit/(loss) before impairment losses                                                                                       | 1,840                        | 2,251             | (287)            | 595               | 22                     | 372     | 1,537            | 982                 | -                         | 7,312                     | (804)                     | -        |
| (Charge for)/Write back of impairment losses on loans and receivables                                                                  | (230)                        | (306)             | 1                | (2)               | -                      | (27)    | (2,815)          | (83)                | -                         | (3,462)                   | -                         | -        |
| Impairment losses on available-for-sale financial assets                                                                               | -                            | -                 | -                | -                 | -                      | (1)     | -                | -                   | -                         | (1)                       | -                         | -        |
| Operating profit/(loss) after impairment losses                                                                                        | 1,610                        | 1,945             | (286)            | 593               | 22                     | 344     | (1,278)          | 899                 | -                         | 3,849                     | (804)                     | -        |
| Profit/(Loss) on sale of fixed assets, held-to-maturity investments, available-for-sale financial assets and repurchase of debt issued | (13)                         | 16                | 68               | -                 | -                      | 1       | 889              | (6)                 | -                         | 955                       | -                         | -        |
| Profit/(Loss) on sale of disposal groups and assets held for sale                                                                      | -                            | -                 | -                | -                 | -                      | -       | (7)              | -                   | -                         | (7)                       | 106                       | -        |
| Valuation gains on investment properties                                                                                               | -                            | -                 | -                | -                 | -                      | -       | -                | 1                   | -                         | 1                         | 61                        | -        |
| Share of profits less losses of associates                                                                                             | -                            | -                 | -                | -                 | -                      | (1)     | 141              | 291                 | -                         | 431                       | -                         | -        |
| Profit/(Loss) before taxation                                                                                                          | 1,597                        | 1,961             | (218)            | 593               | 22                     | 344     | (255)            | 1,185               | -                         | 5,229                     | (637)                     | -        |
| Depreciation for the year                                                                                                              | (59)                         | (1)               | (6)              | (2)               | -                      | (17)    | (213)            | (20)                | -                         | (318)                     | (150)                     | -        |
| Segment assets                                                                                                                         | 73,887                       | 150,132           | 149,947          | 23,627            | 8,207                  | 18,523  | 298,864          | 89,389              | -                         | 812,576                   | 17,255                    | (72,642) |
| Investments in associates                                                                                                              | -                            | -                 | -                | -                 | -                      | 49      | 1,166            | 4,796               | -                         | 6,011                     | -                         | -        |
| Other assets – Assets held for sale                                                                                                    | -                            | -                 | -                | -                 | -                      | -       | 251              | 39                  | 2,205                     | 2,495                     | 11                        | -        |
| Total assets                                                                                                                           | 73,887                       | 150,132           | 149,947          | 23,627            | 8,207                  | 18,572  | 300,281          | 94,224              | 2,205                     | 821,082                   | 17,266                    | (72,642) |
| Segment liabilities                                                                                                                    | 291,835                      | 922               | 62,725           | 21,308            | 6                      | 14,756  | 252,746          | 78,074              | -                         | 722,372                   | 2,066                     | (45,794) |
| Other liabilities – Liabilities held for sale                                                                                          | -                            | -                 | -                | -                 | -                      | -       | 41               | -                   | 385                       | 426                       | -                         | -        |
| Total liabilities                                                                                                                      | 291,835                      | 922               | 62,725           | 21,308            | 6                      | 14,756  | 252,787          | 78,074              | 385                       | 722,798                   | 2,066                     | (45,794) |
| Capital expenditure incurred during the year                                                                                           | 100                          | 1                 | 30               | 4                 | -                      | 22      | 77               | 43                  | 30                        | 307                       | 141                       | -        |

|                                                                                                                                   | 2015 (Restated)              |                   |                  |                   |                        |         |                  |                     |                           |         |                           |         |                           |         |  |
|-----------------------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------|------------------|-------------------|------------------------|---------|------------------|---------------------|---------------------------|---------|---------------------------|---------|---------------------------|---------|--|
|                                                                                                                                   | Hong Kong banking operations |                   |                  |                   |                        |         |                  |                     | Corporate Services (Note) |         | Total reportable segments |         | Inter-segment elimination | Total   |  |
|                                                                                                                                   | Personal banking             | Corporate banking | Treasury markets | Wealth management | Financial institutions | Others  | China operations | Overseas operations |                           |         | HK\$ Mn                   | Others  |                           |         |  |
|                                                                                                                                   | HK\$ Mn                      | HK\$ Mn           | HK\$ Mn          | HK\$ Mn           | HK\$ Mn                | HK\$ Mn | HK\$ Mn          | HK\$ Mn             | HK\$ Mn                   |         | HK\$ Mn                   | HK\$ Mn | HK\$ Mn                   | HK\$ Mn |  |
| CONTINUING OPERATIONS                                                                                                             |                              |                   |                  |                   |                        |         |                  |                     |                           |         |                           |         |                           |         |  |
| Net interest income/(expense)                                                                                                     | 2,694                        | 2,451             | (22)             | 337               | 52                     | 312     | 4,775            | 1,172               | -                         | 11,771  |                           | 158     | -                         | 11,929  |  |
| Non-interest income/(expense)                                                                                                     | 819                          | 526               | (413)            | 457               | 17                     | 737     | 1,254            | 160                 | -                         | 3,557   |                           | 743     | (362)                     | 3,938   |  |
| Operating income                                                                                                                  | 3,513                        | 2,977             | (435)            | 794               | 69                     | 1,049   | 6,029            | 1,332               | -                         | 15,328  |                           | 901     | (362)                     | 15,867  |  |
| Operating expenses                                                                                                                | (1,823)                      | (216)             | (140)            | (197)             | (13)                   | (636)   | (3,924)          | (465)               | -                         | (7,414) |                           | (1,850) | 360                       | (8,904) |  |
| Operating profit/(loss) before impairment losses                                                                                  | 1,690                        | 2,761             | (575)            | 597               | 56                     | 413     | 2,105            | 867                 | -                         | 7,914   |                           | (949)   | (2)                       | 6,963   |  |
| (Charge for)/ Write back of impairment losses on loans and receivables                                                            | (128)                        | (110)             | -                | (9)               | -                      | (56)    | (1,704)          | (29)                | -                         | (2,036) |                           | 5       | -                         | (2,031) |  |
| Impairment losses on available-for-sale financial assets                                                                          | -                            | -                 | (15)             | -                 | -                      | (2)     | -                | -                   | -                         | (17)    |                           | -       | -                         | (17)    |  |
| Operating profit/(loss) after impairment losses                                                                                   | 1,562                        | 2,651             | (590)            | 588               | 56                     | 355     | 401              | 838                 | -                         | 5,861   |                           | (944)   | (2)                       | 4,915   |  |
| Profit/(Loss) on sale of fixed assets, loans and receivable, held-to-maturity investments and available-for-sale financial assets | (2)                          | 1                 | 93               | -                 | -                      | 9       | 151              | -                   | -                         | 252     |                           | 116     | -                         | 368     |  |
| Valuation gains on investment properties                                                                                          | -                            | -                 | -                | -                 | -                      | -       | -                | 49                  | -                         | 49      |                           | 497     | -                         | 546     |  |
| Share of profits less losses of associates                                                                                        | -                            | -                 | -                | -                 | -                      | (3)     | 182              | 377                 | -                         | 556     |                           | -       | -                         | 556     |  |
| Profit/(Loss) before taxation                                                                                                     | 1,560                        | 2,652             | (497)            | 588               | 56                     | 361     | 734              | 1,264               | -                         | 6,718   |                           | (331)   | (2)                       | 6,385   |  |
| Depreciation for the year                                                                                                         | (61)                         | (1)               | (2)              | (3)               | -                      | (25)    | (232)            | (18)                | -                         | (342)   |                           | (153)   | -                         | (495)   |  |
| Segment assets                                                                                                                    | 68,719                       | 142,731           | 165,533          | 25,627            | 7,022                  | 17,585  | 320,993          | 88,061              | 2,269                     | 838,540 |                           | 17,912  | (81,806)                  | 774,646 |  |
| Investments in associates                                                                                                         | -                            | -                 | -                | -                 | -                      | 50      | 1,102            | 4,591               | 20                        | 5,763   |                           | -       | -                         | 5,763   |  |
| Other assets – Assets held for sale                                                                                               | -                            | -                 | -                | -                 | -                      | 646     | 287              | 22                  | -                         | 955     |                           | -       | -                         | 955     |  |
| Total assets                                                                                                                      | 68,719                       | 142,731           | 165,533          | 25,627            | 7,022                  | 18,281  | 322,382          | 92,674              | 2,289                     | 845,258 |                           | 17,912  | (81,806)                  | 781,364 |  |
| Segment liabilities                                                                                                               | 279,214                      | 1,124             | 80,117           | 21,436            | 6                      | 13,827  | 275,702          | 77,011              | 405                       | 748,842 |                           | 2,148   | (55,492)                  | 695,498 |  |
| Other liabilities – Liabilities held for sale                                                                                     | -                            | -                 | -                | -                 | -                      | 131     | 94               | -                   | -                         | 225     |                           | -       | -                         | 225     |  |
| Total liabilities                                                                                                                 | 279,214                      | 1,124             | 80,117           | 21,436            | 6                      | 13,958  | 275,796          | 77,011              | 405                       | 749,067 |                           | 2,148   | (55,492)                  | 695,723 |  |
| Capital expenditure incurred during the year                                                                                      | 48                           | -                 | 2                | -                 | -                      | 16      | 154              | 14                  | 131                       | 365     |                           | 104     | -                         | 469     |  |

Note: On 5<sup>th</sup> October, 2016, the Bank, NWS Holdings Limited and East Asia Secretaries (BVI) Limited (“East Asia Secretaries”) entered into a share purchase agreement with Trivium Investment Limited (“Trivium”), a company which is wholly owned and controlled by Permira funds, for the sale of all the issued shares of Tricor Holdings Limited (“Tricor”) held by East Asia Secretaries to Trivium (the “Disposal”). The Bank expects completion of the Disposal to occur during the first quarter of 2017. In accordance with Hong Kong Financial Reporting Standard 5 – Non-current Assets Held for Sale and Discontinued Operations, the Group is required to report Tricor Group’s operating results for the year of 2016 separately as discontinued operations in the consolidated income statement with comparative information re-presented. Tricor Group’s assets and liabilities as at 31st December, 2016 are presented separately as assets held for sale and liabilities held for sale respectively in the consolidated financial statements. Restatement of assets and liabilities as at 31<sup>st</sup> December, 2015 is not required.

## 21. Off-balance Sheet Exposures

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

|                                                                       | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn  |
|-----------------------------------------------------------------------|-----------------|------------------|
| Contractual amounts of contingent liabilities and commitments         |                 |                  |
| Direct credit substitutes                                             | 17,568          | 32,679           |
| Transaction-related contingencies                                     | 763             | 1,039            |
| Trade-related contingencies                                           | 1,133           | 747              |
| Commitments that are unconditionally cancellable without prior notice | 160,737         | 168,798          |
| Other commitments with an original maturity                           |                 |                  |
| - up to 1 year                                                        | 10,419          | 15,796           |
| - over 1 year                                                         | 27,633          | 23,421           |
| Total                                                                 | <u>218,253</u>  | <u>242,480</u>   |
| Credit risk weighted amounts                                          | <u>34,130</u>   | <u>30,430</u>    |
| Fair value of derivatives                                             |                 |                  |
| Assets                                                                |                 |                  |
| Exchange rate contracts                                               | 6,148           | 3,836            |
| Interest rate contracts                                               | 2,582           | 2,121            |
| Equity contracts                                                      | 202             | 239              |
| Others                                                                | 6               | 9                |
|                                                                       | <u>8,938</u>    | <u>6,205</u>     |
| Liabilities                                                           |                 |                  |
| Exchange rate contracts                                               | 5,709           | 4,754            |
| Interest rate contracts                                               | 2,019           | 1,932            |
| Equity contracts                                                      | 234             | 221              |
| Others                                                                | 20              | 2                |
|                                                                       | <u>7,982</u>    | <u>6,909</u>     |
| Notional amounts of derivatives                                       |                 |                  |
| Exchange rate contracts                                               | 529,917         | 458,645          |
| Interest rate contracts                                               | 386,691         | 624,108          |
| Equity contracts                                                      | 10,911          | 9,928            |
| Others                                                                | 1,297           | 9,329            |
|                                                                       | <u>928,816</u>  | <u>1,102,010</u> |
| Credit risk weighted amounts*                                         |                 |                  |
| Exchange rate contracts                                               | 5,131           | 6,693            |
| Interest rate contracts                                               | 775             | 1,090            |
| Equity contracts                                                      | 41              | 526              |
| Others                                                                | 286             | 760              |
|                                                                       | <u>6,233</u>    | <u>9,069</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 Banking (Capital) Rules for calculating the credit risk weighted amount as at 31<sup>st</sup> December, 2016 and 31<sup>st</sup> December, 2015.*

## 22. Reserves

|                                      | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|--------------------------------------|-----------------|-----------------|
| General reserve                      | 14,035          | 13,953          |
| Revaluation reserve on bank premises | 1,728           | 1,639           |
| Investment revaluation reserve       | 1,359           | 1,383           |
| Exchange revaluation reserve         | (2,275)         | (162)           |
| Other reserves                       | 5,647           | 4,986           |
| Retained profits*                    | 22,447          | 21,799          |
|                                      | <u>42,941</u>   | <u>43,598</u>   |
| Dividends declared, not provided for | <u>757</u>      | <u>1,320</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 31<sup>st</sup> December, 2016, HK\$4,372 million (31<sup>st</sup> December, 2015: HK\$5,269 million) was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the HKMA.

## 23. Non-adjusting events after the reporting period

After the end of the reporting period the Directors declared a second interim dividend. Further details are disclosed in Note 2.

## 24. Comparative Figures

Certain 2015 comparative figures have been restated to conform to current year's presentation. Please refer to Consolidated Income Statement, Consolidated Cash Flow Statement, Notes 3, 4, 5, 6, 10, 11, 13, 14, 20 and 25 for the effect of restatement.

## 25. Discontinued Operations and Assets Held for Sale

On 5<sup>th</sup> October, 2016, the Bank, NWS Holdings Limited ("NWS Holdings") and East Asia Secretaries (BVI) Limited ("East Asia Secretaries") entered into a share purchase agreement with Trivium Investment Limited ("Trivium"), a company which is wholly owned and controlled by Permira funds, for the sale of all the issued shares of Tricor Holdings Limited ("Tricor") held by East Asia Secretaries to Trivium for a total consideration of HK\$6,470 million (the "Disposal"). Tricor is 75.61% owned by the Bank and 24.39% owned by NWS Holdings, in each case through East Asia Secretaries. The Bank expects completion of the Disposal to occur during the first quarter of 2017. Following completion of the Disposal, the Bank will cease to hold any equity interest in Tricor and Tricor will cease to be a subsidiary of the Bank. The Bank is expected to book a profit in the amount of approximately HK\$3,050 million once completion of the Disposal takes place.

In accordance with Hong Kong Financial Reporting Standard 5 – Non-current Assets Held for Sale and Discontinued Operations, the Group is required to report Tricor Group's operating results for the year of 2016 separately as discontinued operations in the consolidated income statement with comparative information in notes 3, 4, 5, 6, 10, 11, 13, 14 and 20 re-presented. Tricor Group's assets and liabilities as at 31<sup>st</sup> December, 2016 are presented separately as assets held for sale and liabilities held for sale respectively in the consolidated financial statements. Restatement of assets and liabilities as at 31<sup>st</sup> December, 2015 is not required. The consolidated statement of changes in equity and the consolidated cash flow statement are prepared on the same basis as 2015.

On 6<sup>th</sup> December, 2016, the Bank entered into an agreement to sell its wholly-owned subsidiary, Shaanxi Fuping BEA Rural Bank Corporation ("BEA Rural Bank") to Shaanxi Dingbian Rural Commercial Bank Corporation for a total consideration of RMB24 million. The completion of the sale transaction ("Completion") is conditional upon obtaining the regulatory approval and the satisfaction of the conditions precedent set out in the Equity Transfer Agreement. The Bank expects Completion to occur during the first half of 2017. BEA Rural Bank's assets and liabilities as at 31<sup>st</sup> December, 2016 are presented separately as assets held for sale and liabilities held for sale respectively in the consolidated financial statements.

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

|                                                                              | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|------------------------------------------------------------------------------|-----------------|-----------------|
| Interest income                                                              | 6               | 7               |
| Interest expense                                                             | (3)             | (2)             |
| Net interest income                                                          | 3               | 5               |
| Fee and commission income                                                    | 1,258           | 1,194           |
| Fee and commission expense                                                   | -               | -               |
| Net fee and commission income                                                | 1,258           | 1,194           |
| Net trading losses                                                           | (8)             | (4)             |
| Other operating income                                                       | 2               | 2               |
| Non-interest income                                                          | 1,252           | 1,192           |
| Operating income                                                             | 1,255           | 1,197           |
| Operating expenses                                                           | (892)           | (828)           |
| Operating profit before impairment losses                                    | 363             | 369             |
| Impairment losses on loans and receivables                                   | (3)             | (11)            |
| Operating profit after impairment losses                                     | 360             | 358             |
| Net profit on sale of available-for-sale financial assets                    | 4               | -               |
| Net profit on disposal of subsidiaries/associates                            | -               | 2               |
| Net loss on disposal of fixed assets                                         | -               | (1)             |
| Valuation gains on investment properties                                     | 1               | 3               |
| Share of profits less losses of associates                                   | -               | 2               |
| Profit for the year before taxation                                          | 365             | 364             |
| Income tax                                                                   |                 |                 |
| Current tax                                                                  |                 |                 |
| - Hong Kong                                                                  | (33)            | (32)            |
| - Outside Hong Kong                                                          | (28)            | (33)            |
| Deferred tax                                                                 | -               | 3               |
| Profit for the year from discontinued operations                             | 304             | 302             |
|                                                                              | HK\$            | HK\$            |
| Earnings per share for profit attributable to the equity holders of the Bank |                 |                 |
| Basic and diluted                                                            |                 |                 |
| - profit from discontinued operations                                        | 0.09            | 0.09            |

The assets and liabilities of the disposal group held for sale are summarized below:

|                                                                 | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|-----------------------------------------------------------------|-----------------|-----------------|
| <b>ASSETS</b>                                                   |                 |                 |
| Cash and balances with banks and other financial institutions   | 426             | 173             |
| Placements with banks and other financial institutions          | 66              | 35              |
| Advances to customers and other accounts                        | 410             | 598             |
| - Advances to customers                                         | 96              | -               |
| - Less: Collective impairment allowance                         | (1)             | -               |
| - Other accounts                                                | 346             | 598             |
| - Less: Individual impairment allowance                         | (25)            | -               |
| Collective impairment allowance                                 | (6)             | -               |
| Available-for-sale financial assets                             | 27              | -               |
| Investments in associates                                       | 21              | -               |
| Fixed assets                                                    | 205             | 8               |
| - Investment properties                                         | 22              | -               |
| - Other properties and equipment                                | 183             | 8               |
| Goodwill and intangible assets                                  | 1,149           | 2               |
| Deferred tax assets                                             | 10              | 5               |
| Assets held for sale                                            | 2,314           | 821             |
| <b>LIABILITIES</b>                                              |                 |                 |
| Deposits and balances of banks and other financial institutions | 66              | 40              |
| Deposits from customers                                         | 40              | -               |
| Current taxation                                                | 18              | 1               |
| Deferred tax liabilities                                        | 3               | -               |
| Other accounts and provisions                                   | 299             | 184             |
| Liabilities held for sale                                       | 426             | 225             |

Disposal group held for sale as at 31<sup>st</sup> December 2015

On 23<sup>rd</sup> October, 2015 the Bank entered into an agreement to sell its wholly-owned subsidiary, Tung Shing Holdings Company Limited to SinoPac Securities (Cayman) Holdings Limited ("SPSC"). In addition, the Bank has entered into an agreement with SinoPac Securities Corporation ("SinoPac Securities") for the disposal of all the issued shares in BEA Wealth Management Services (Taiwan) Limited ("BEAWMS") through the merger of BEAWMS with SinoPac Securities. Both SinoPac Securities and SPSC are wholly-owned subsidiaries of SinoPac Financial Holdings Company Limited ("SinoPac"), which is listed on the Taiwan Stock Exchange (2890.TT). The sales were completed during the year 2016.

|                                | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|--------------------------------|-----------------|-----------------|
| Assets held for sale (Note 17) |                 |                 |
| Disposal group held for sale   | 2,314           | 821             |
| Other properties and loans     | 192             | 134             |
|                                | 2,506           | 955             |
| Liabilities held for sale      |                 |                 |
| Disposal group held for sale   | 426             | 225             |

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

|                                                            | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|------------------------------------------------------------|-----------------|-----------------|
| Cumulative income recognised in other comprehensive income | <u>(61)</u>     | <u>(10)</u>     |

The net cash flows incurred by discontinued operations and included in the consolidated cash flow statement are as follows:

|                      | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|----------------------|-----------------|-----------------|
| Operating activities | 278             | 346             |
| Investing activities | (19)            | (130)           |
| Financing activities | <u>(91)</u>     | <u>(200)</u>    |
| Net cash inflow      | <u>168</u>      | <u>16</u>       |

## **UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION**

### **(A) Capital Adequacy**

|                                    | 2016    | 2015                |
|------------------------------------|---------|---------------------|
|                                    | HK\$ Mn | Restated<br>HK\$ Mn |
| Capital base                       |         |                     |
| - Common Equity Tier 1 capital     | 62,780  | 61,571              |
| - Additional Tier 1 capital        | 7,142   | 7,210               |
| - Total Tier 1 capital             | 69,922  | 68,781              |
| - Tier 2 capital                   | 20,360  | 17,703              |
| - Total capital                    | 90,282  | 86,484              |
| Risk weighted assets by risk type  |         |                     |
| - Credit risk                      | 477,065 | 458,920             |
| - Market risk                      | 14,981  | 17,231              |
| - Operational risk                 | 29,267  | 30,507              |
|                                    | 521,313 | 506,658             |
| Less: Deductions                   | (3,014) | (3,018)             |
|                                    | 518,299 | 503,640             |
|                                    | 2016    | 2015                |
|                                    | %       | %                   |
| Common Equity Tier 1 capital ratio | 12.1    | 12.2                |
| Tier 1 capital ratio               | 13.5    | 13.7                |
| Total capital ratio                | 17.4    | 17.2                |

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

The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. Subsidiaries included in consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with Section 3C of the Capital Rules. Subsidiaries not included in consolidation for regulatory purposes are non-financial companies and the securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Capital Rules and the Banking Ordinance. The Bank's shareholdings in these subsidiaries are deducted from its Tier 1 capital and Tier 2 capital subject to the thresholds and transitional arrangements as determined in accordance with Part 3 and Schedule 4H of the Capital Rules respectively.

The principal subsidiaries that are not included in consolidation for regulatory purposes are:

Blue Cross (Asia-Pacific) Insurance Limited  
 BEA Life Limited  
 East Asia Futures Limited  
 East Asia Securities Company Limited  
 Tricor Holdings Limited and its subsidiaries

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.

For the purpose of compliance with the Banking (Disclosure) Rules, the Group has established a section on the Bank's website. Additional information relating to the Group's regulatory capital and other disclosures can be found in this section of the Bank's website, accessible through the "Regulatory Disclosure" link on the home page of the Bank's website at [www.hkbea.com](http://www.hkbea.com) or at the following direct link: [www.hkbea.com/regulatory\\_disclosures](http://www.hkbea.com/regulatory_disclosures).

## B. Liquidity Position

|                                  |                  | 2016  | 2015  |
|----------------------------------|------------------|-------|-------|
|                                  |                  | %     | %     |
| Average liquidity coverage ratio | - First quarter  | 151.3 | 127.2 |
|                                  | - Second quarter | 141.2 | 137.5 |
|                                  | - Third quarter  | 133.5 | 132.1 |
|                                  | - Fourth quarter | 137.2 | 151.2 |

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

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

## C. International Claims

The information on international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any recognised risk transfer. 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. Only countries constituting 10% or more of the aggregate international claims after taking into account any recognised risk transfer are disclosed.

|                                           | 2016    |                 |                                 |                              |         |              |
|-------------------------------------------|---------|-----------------|---------------------------------|------------------------------|---------|--------------|
|                                           |         |                 | Non-bank private sector         |                              |         |              |
|                                           | Banks   | Official sector | Non-bank financial institutions | Non-financial private sector | Others  | Total claims |
|                                           | HK\$ Mn | HK\$ Mn         | HK\$ Mn                         | HK\$ Mn                      | HK\$ Mn | HK\$ Mn      |
| <u>Counterparty country/ jurisdiction</u> |         |                 |                                 |                              |         |              |
| Developed countries                       | 18,381  | 4,476           | 6,906                           | 10,251                       | -       | 40,014       |
| Offshore centres                          | 6,921   | 544             | 3,737                           | 76,943                       | -       | 88,145       |
| - of which: Hong Kong                     | 4,260   | 540             | 3,606                           | 65,877                       | -       | 74,283       |
| Developing Asia and Pacific               | 23,712  | 3,706           | 8,978                           | 96,198                       | -       | 132,594      |
| - of which: China                         | 10,494  | 3,517           | 8,831                           | 89,147                       | -       | 111,989      |

|                                    | 2015 (Restated)         |                 |                                 |                              |         |              |
|------------------------------------|-------------------------|-----------------|---------------------------------|------------------------------|---------|--------------|
|                                    | Non-bank private sector |                 |                                 |                              |         |              |
|                                    | Banks                   | Official sector | Non-bank financial institutions | Non-financial private sector | Others  | Total claims |
|                                    | HK\$ Mn                 | HK\$ Mn         | HK\$ Mn                         | HK\$ Mn                      | HK\$ Mn | HK\$ Mn      |
| Counterparty country/ jurisdiction |                         |                 |                                 |                              |         |              |
| Developed countries                | 28,216                  | 473             | 4,416                           | 5,531                        | -       | 38,636       |
| Offshore centres                   | 7,439                   | 113             | 13,665                          | 53,696                       | -       | 74,913       |
| - of which: Hong Kong              | 4,203                   | 110             | 13,051                          | 44,350                       | -       | 61,714       |
| Developing Asia and Pacific        | 36,366                  | 1,040           | 21,226                          | 88,588                       | -       | 147,220      |
| - of which: China                  | 24,418                  | 994             | 19,322                          | 81,204                       | -       | 125,938      |

The above figures are computed in accordance with the HKMA's guidelines on the return of international banking statistics and the Banking (Disclosure) Rules in respect of the reporting period on the consolidated basis.

#### D. Mainland Activities

The table below summaries the non-bank Mainland China exposure of the Bank's Hong Kong Office and the Bank's Mainland subsidiary banks categorised by types of counterparties:

| <u>Type of counterparties</u>                                                                                                                          | 2016                      |                            |         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|----------------------------|---------|
|                                                                                                                                                        | On-balance sheet exposure | Off-balance sheet exposure | Total   |
|                                                                                                                                                        | HK\$ Mn                   | HK\$ Mn                    | HK\$ Mn |
| 1. Central government, central government-owned entities and their subsidiaries and joint ventures                                                     | 33,143                    | 5,955                      | 39,098  |
| 2. Local governments, local government-owned entities and their subsidiaries and joint ventures                                                        | 20,992                    | 642                        | 21,634  |
| 3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures                 | 161,687                   | 33,901                     | 195,588 |
| 4. Other entities of central government not reported in item 1 above                                                                                   | 5,349                     | 831                        | 6,180   |
| 5. Other entities of local governments not reported in item 2 above                                                                                    | 3,881                     | 8                          | 3,889   |
| 6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China | 4,500                     | 763                        | 5,263   |
| 7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures                        | 36,871                    | 2,187                      | 39,058  |
| Total                                                                                                                                                  | 266,423                   | 44,287                     | 310,710 |
| Total assets after provision                                                                                                                           | 710,187                   |                            |         |
| On-balance sheet exposures as percentage of total assets                                                                                               | 37.5%                     |                            |         |

|                                                                                                                                                        | 2015                            |                                  |                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------------------|----------------|
|                                                                                                                                                        | On-balance<br>sheet<br>exposure | Off-balance<br>sheet<br>exposure | Total          |
|                                                                                                                                                        | HK\$ Mn                         | HK\$ Mn                          | HK\$ Mn        |
| <u>Type of counterparties</u>                                                                                                                          |                                 |                                  |                |
| 1. Central government, central government-owned entities and their subsidiaries and joint ventures                                                     | 26,087                          | 3,934                            | 30,021         |
| 2. Local governments, local government-owned entities and their subsidiaries and joint ventures                                                        | 16,568                          | 1,762                            | 18,330         |
| 3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures                 | 155,502                         | 34,997                           | 190,499        |
| 4. Other entities of central government not reported in item 1 above                                                                                   | 3,746                           | 1,570                            | 5,316          |
| 5. Other entities of local governments not reported in item 2 above                                                                                    | 3,948                           | 98                               | 4,046          |
| 6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China | 8,507                           | 304                              | 8,811          |
| 7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures                        | 39,950                          | 1,616                            | 41,566         |
| Total                                                                                                                                                  | <u>254,308</u>                  | <u>44,281</u>                    | <u>298,589</u> |
| Total assets after provision                                                                                                                           | <u>737,558</u>                  |                                  |                |
| On-balance sheet exposures as percentage of total assets                                                                                               | 34.5%                           |                                  |                |

The above figures are disclosed in accordance with the return relating to Mainland activities the Bank submitted to the HKMA pursuant to section 63 of the Banking Ordinance in respect of the reporting period, which are computed on the consolidated basis as required by the HKMA for its regulatory purposes.

## E. Overdue, Rescheduled and Repossessed Assets

### (a) Overdue and rescheduled advances

|                                                                              | 2016    |                                  | 2015    |                                  |
|------------------------------------------------------------------------------|---------|----------------------------------|---------|----------------------------------|
|                                                                              | 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                                         | 455     | 0.1                              | 610     | 0.1                              |
| - 1 year or less but over 6 months                                           | 1,009   | 0.2                              | 1,535   | 0.4                              |
| - Over 1 year                                                                | 2,725   | 0.6                              | 1,934   | 0.4                              |
|                                                                              | 4,189   | 0.9                              | 4,079   | 0.9                              |
| Rescheduled advances to customers                                            | 107     | 0.0                              | 78      | 0.0                              |
| Total overdue and rescheduled advances                                       | 4,296   | 0.9                              | 4,157   | 0.9                              |
| Secured overdue advances                                                     | 2,907   | 0.6                              | 3,597   | 0.8                              |
| Unsecured overdue advances                                                   | 1,282   | 0.3                              | 482     | 0.1                              |
| Market value of security held against secured overdue advances               | 5,678   |                                  | 6,804   |                                  |
| Individual impairment allowance made on loans overdue for more than 3 months | 1,510   |                                  | 799     |                                  |

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

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

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

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

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

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

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

(b) Advances to banks

|                                        | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|----------------------------------------|-----------------|-----------------|
| Advances to banks overdue for          |                 |                 |
| - 6 months or less but over 3 months   | -               | -               |
| - 1 year or less but over 6 months     | -               | -               |
| - Over 1 year                          | -               | -               |
|                                        | -               | -               |
| Rescheduled advances to banks          | -               | -               |
| Total overdue and rescheduled advances | -               | -               |

(c) Other overdue and rescheduled assets

|                                            | 2016                |                    |                  |
|--------------------------------------------|---------------------|--------------------|------------------|
|                                            | Accrued<br>interest | Debt<br>securities | Other<br>assets* |
|                                            | HK\$ Mn             | HK\$ Mn            | HK\$ Mn          |
| Other assets overdue for                   |                     |                    |                  |
| - 6 months or less but over 3 months       | -                   | -                  | -                |
| - 1 year or less but over 6 months         | -                   | -                  | -                |
| - Over 1 year                              | -                   | -                  | 1                |
|                                            | -                   | -                  | 1                |
| Rescheduled assets                         | -                   | -                  | -                |
| Total other overdue and rescheduled assets | -                   | -                  | 1                |

  

|                                            | 2015                |                    |                  |
|--------------------------------------------|---------------------|--------------------|------------------|
|                                            | Accrued<br>interest | Debt<br>securities | Other<br>assets* |
|                                            | HK\$ Mn             | HK\$ Mn            | HK\$ Mn          |
| Other assets overdue for                   |                     |                    |                  |
| - 6 months or less but over 3 months       | -                   | -                  | -                |
| - 1 year or less but over 6 months         | -                   | -                  | -                |
| - Over 1 year                              | -                   | -                  | 1                |
|                                            | -                   | -                  | 1                |
| Rescheduled assets                         | -                   | -                  | -                |
| Total other overdue and rescheduled assets | -                   | -                  | 1                |

\* Other assets refer to trade bills and receivables.

(d) Repossessed assets

|                                   | 2016<br>HK\$ Mn | 2015<br>HK\$ Mn |
|-----------------------------------|-----------------|-----------------|
| Reposessed land and buildings*    | 333             | 317             |
| Reposessed vehicles and equipment | -               | -               |
| Reposessed machines               | -               | -               |
| Total reposessed assets           | 333             | 317             |

The amount represents the estimated market value of the reposessed assets as at 31<sup>st</sup> December.

\* The balance included HK\$19 million (2015: HK\$7 million) relating to properties that were contracted for sale but not yet completed.

## F. Currency Concentrations

The net non-structural position or net structural position in a particular foreign currency is disclosed when the position in that currency constitutes 10% or more of the total net position or total net structural position in all foreign currencies respectively. The net option position is calculated in the basis of the delta-weighted position of all foreign currency option contracts.

|                                          | 2016      |           |          |                          |           |
|------------------------------------------|-----------|-----------|----------|--------------------------|-----------|
|                                          | USD       | RMB       | SGD      | Other foreign currencies | Total     |
|                                          | HK\$ Mn   | HK\$ Mn   | HK\$ Mn  | HK\$ Mn                  | HK\$ Mn   |
| Spot assets                              | 186,600   | 273,715   | 20,885   | 58,258                   | 539,458   |
| Spot liabilities                         | (172,440) | (253,575) | (24,727) | (48,147)                 | (498,889) |
| Forward purchases                        | 184,475   | 130,912   | 4,880    | 9,091                    | 329,358   |
| Forward sales                            | (191,621) | (161,274) | (1,628)  | (19,070)                 | (373,593) |
| Net options position                     | (9,366)   | 9,233     | -        | (24)                     | (157)     |
| Net long/(short) non-structural position | (2,352)   | (989)     | (590)    | 108                      | (3,823)   |

|                                          | 2015 (Restated) |           |          |                          |           |
|------------------------------------------|-----------------|-----------|----------|--------------------------|-----------|
|                                          | USD             | RMB       | SGD      | Other foreign currencies | Total     |
|                                          | HK\$ Mn         | HK\$ Mn   | HK\$ Mn  | HK\$ Mn                  | HK\$ Mn   |
| Spot assets                              | 167,551         | 301,093   | 22,505   | 55,742                   | 546,891   |
| Spot liabilities                         | (162,388)       | (291,341) | (25,293) | (50,728)                 | (529,750) |
| Forward purchases                        | 149,048         | 117,610   | 4,429    | 12,809                   | 283,896   |
| Forward sales                            | (157,288)       | (128,386) | (2,221)  | (17,344)                 | (305,239) |
| Net options position                     | 92              | (70)      | -        | (13)                     | 9         |
| Net long/(short) non-structural position | (2,985)         | (1,094)   | (580)    | 466                      | (4,193)   |

|                         | 2016    |         |         |                          |         |
|-------------------------|---------|---------|---------|--------------------------|---------|
|                         | USD     | RMB     | MYR     | Other foreign currencies | Total   |
|                         | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn                  | HK\$ Mn |
| Net structural position | 2,173   | 12,834  | 2,033   | 903                      | 17,943  |

|                         | 2015    |         |         |                          |         |
|-------------------------|---------|---------|---------|--------------------------|---------|
|                         | USD     | RMB     | MYR     | Other foreign currencies | Total   |
|                         | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn                  | HK\$ Mn |
| Net structural position | 2,168   | 12,287  | 2,123   | 925                      | 17,503  |

The above figures are disclosed in accordance with the return relating to foreign currency positions the Bank submitted to the HKMA pursuant to section 63 of the Banking Ordinance in respect of the annual reporting period, which are computed on the consolidated basis as required by the HKMA for its regulatory purposes.

#### **G. Leverage Ratio**

|                | 2016 | 2015 |
|----------------|------|------|
|                | %    | %    |
| Leverage ratio | 8.8  | 8.3  |

The disclosure on leverage ratio is effective since 31<sup>st</sup> March, 2015 and is computed on the same consolidated basis as specified in a notice from the HKMA in accordance with section 3C of the Capital Rules. The relevant disclosures pursuant to section 45A of the Banking (Disclosure) Rules can be found on the Bank's website accessible through the "Regulatory Disclosure" link on the home page of the Bank's website at [www.hkbea.com](http://www.hkbea.com) or at the following direct link: [www.hkbea.com/regulatory\\_disclosures](http://www.hkbea.com/regulatory_disclosures).

#### **H. Countercyclical Capital Buffer Ratio**

|                                      | 2016  | 2015 |
|--------------------------------------|-------|------|
|                                      | %     | %    |
| Countercyclical capital buffer ratio | 0.243 | -    |

The relevant disclosures pursuant to section 45B of the Banking (Disclosure) Rules for 2016 can be found on the Bank's website accessible through the "Regulatory Disclosure" link on the home page of the Bank's website at [www.hkbea.com](http://www.hkbea.com) or at the following direct link: [www.hkbea.com/regulatory\\_disclosures](http://www.hkbea.com/regulatory_disclosures).

There is no information disclosed relating to the countercyclical capital buffer ratio pursuant to section 45B of the Banking (Disclosure) Rules for 2015 because the applicable JCCyB ratios for Hong Kong and for jurisdiction outside Hong Kong are at 0% before 1<sup>st</sup> January, 2016 according to section 3P and section 3Q of the Capital Rules.

#### **I. Capital Conservation Buffer Ratio**

Under section 3M of the Capital Rules, the capital conservation buffer ratio for calculating the Bank's buffer level is 0.625% for 2016 and 0% for 2015.

#### **J. Higher Loss Absorbency Ratio**

The HKMA has designated the Bank as a domestic systematically important authorised institution ("D-SIB"). Under section 3V of the Capital Rules, the higher loss absorbency ratio applicable to the Bank is 0.25% for 2016 and 0% for 2015.

## STATEMENT OF COMPLIANCE

- (1) In preparing the accounts for 2016, the Bank has fully complied with the Banking (Disclosure) Rules.
- (2) The Bank is committed to maintaining high corporate governance standards and considers such commitment essential in balancing the interests of shareholders, customers and employees; and in upholding accountability and transparency.
- (3) During the financial year ended 31<sup>st</sup> December, 2016, the Bank has complied with all the Code Provisions set out in the CG Code, except for Code Provision A.2.1 as explained below.

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

Dr. the Hon. Sir David LI Kwok-po is the Chairman & Chief Executive of the Bank. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Bank. The division of responsibilities between the Chairman and the Chief Executive is clearly established and set out in the job mandate of the Chairman & Chief Executive. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals and meets regularly to discuss issues affecting operations of the Bank. There is a strong independent element in the composition of the Board. Currently, out of the 17 Board members, 8 are Independent Non-executive Directors. The Board believes that the current structure is conducive to strong and consistent leadership, enabling the Bank to make and implement decisions promptly and efficiently. The Board believes that Sir David's appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects and management of the Bank.

- (4) During the financial year ended 31<sup>st</sup> December, 2016, the Bank has followed the modules on CG-1 and CG-5.

## PAYMENT OF SECOND INTERIM DIVIDEND FOR 2016

The Board has declared a second interim dividend for the year ended 31<sup>st</sup> December, 2016 ("2016 Second Interim Dividend") of HK\$0.28 per share (2015 Second Interim Dividend: HK\$0.50 per share), which, together with the 2016 interim dividend of HK\$0.28 per share paid in September 2016, will constitute a total dividend of HK\$0.56 per share (2015 total dividend: HK\$0.88 per share) for the full year. The 2016 Second Interim Dividend will be paid on or about Thursday, 30<sup>th</sup> March, 2017 in cash with an option to receive new, fully paid shares in lieu of cash ("Scrip Dividend Scheme"), to shareholders whose names appear on the Register of Members of the Bank at the close of business on Tuesday, 7<sup>th</sup> March, 2017. The ex-dividend date for 2017 Second Interim Dividend will be on Thursday, 2<sup>nd</sup> March, 2017. Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Tuesday, 7<sup>th</sup> March, 2017.

The Scrip Dividend Scheme is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the New Shares to be issued under the Scrip Dividend Scheme. The dividend warrants and the share certificates for the Scrip Dividend Scheme will be sent to shareholders by ordinary mail on or about Thursday, 30<sup>th</sup> March, 2017.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Bank will be closed for the following periods:

- (a) For the purpose of determining shareholders who qualify for the 2016 Second Interim Dividend, the Register of Members of the Bank will be closed on Monday, 6<sup>th</sup> March, 2017 and Tuesday, 7<sup>th</sup> March, 2017. In order to qualify for the 2016 Second Interim Dividend, all transfer documents should be lodged for registration with Tricor Standard Limited (Address: Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong) by 4:00 p.m. on Friday, 3<sup>rd</sup> March, 2017.
- (b) For the purpose of determining shareholders who are entitled to attend and vote at the 2017 AGM, the Register of Members of the Bank will be closed from Thursday, 27<sup>th</sup> April, 2017 to Friday, 5<sup>th</sup> May, 2017 (both days inclusive). In order to qualify for attending and voting at the 2017 AGM, all transfer documents should be lodged for registration with Tricor Standard Limited (Address: Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong) by 4:00 p.m. on Wednesday, 26<sup>th</sup> April, 2017.

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

On 7<sup>th</sup> March, 2016, the Bank redeemed a face value of CHF100 million of 0.78% Senior Notes (the "2016 CHF Senior Notes") upon their maturity. The 2016 CHF Senior Notes were issued in 2014 under the Bank's Medium Term Note Programme and listed on the Singapore Exchange.

On 16<sup>th</sup> March, 2016, the Bank redeemed a face value of US\$15 million 1.20% Senior Notes (the "2016 USD Senior Notes") upon their maturity. The 2016 USD Senior Notes were issued in 2015 under the Bank's Medium Term Note Programme and listed on the Singapore Exchange.

During the year ended 31<sup>st</sup> December, 2016, the Bank bought back an aggregate principal amount of US\$6,000,000 of the outstanding Hybrid Tier 1 capital instruments (comprising the US\$500,000,000 Step-up Subordinated Notes due 2059 issued by the Bank and the US\$500,000,000 Perpetual Non-cumulative Step-up Preference Shares of no par value in a liquidation preference of US\$1,000 issued by Innovate Holdings Limited, a wholly-owned subsidiary of the Bank) ("Hybrid Tier 1 Securities") on the Singapore Exchange. The aggregate price paid by the Bank for such purchases was US\$6,772,500. All the Hybrid Tier 1 Securities purchased by the Bank have been cancelled. Following cancellation of the Hybrid Tier 1 Securities purchased by the Bank, the aggregate principal amount of the Hybrid Tier 1 Securities which remains outstanding is US\$318,345,000. The Hybrid Tier 1 Securities are listed on the Singapore Exchange.

Save for the redemption of the 2016 CHF Senior Notes and 2016 USD Senior Notes, and the cancellation of the Hybrid Tier 1 Securities purchased by the Bank as disclosed herein, there was no purchase, sale or redemption by the Bank or any of its subsidiaries, of listed securities of the Bank during the year ended 31<sup>st</sup> December, 2016.

## **CHAIRMAN'S STATEMENT**

Economic growth in Hong Kong and the Mainland slowed further in 2016. Amidst the generally weak market conditions, the short-term performance of The Bank of East Asia has suffered. Nonetheless, our medium and long-term goals – to deliver ever more innovative, efficient and reliable financial services for the Greater China market – are firmly on track.

In 2016, The Bank of East Asia Group earned a Profit Attributable to Owners of the Parent of HK\$3.72 billion, representing a decline of HK\$1.80 billion, or 32.6%, compared to a profit of HK\$5.52 billion in 2015. Basic earnings per share stood at HK\$1.21.

The Board has declared a 2016 second interim dividend of HK\$0.28 per share, bringing the dividend for the year to HK\$0.56 per share. This represents a dividend pay-out ratio of 46.7%, compared to 46.4% in the previous year.

By maintaining the pay-out level, we are demonstrating our commitment to our shareholders, and our confidence in the medium and long-term prospects of this bank.

Notably, across the Group, operating income increased by 8.3% in the second half of 2016 compared to the first half, an encouraging sign as we enter 2017.

### **Strategy**

Meeting the challenging operating environment head on, we set clear priorities at the beginning of 2016. At the top of our agenda, we vowed to strengthen oversight of asset quality and implement strict cost control. At the same time, we announced our vision for the 21<sup>st</sup> century, committing ourselves to a digital banking future.

We have made significant progress in most areas during the year. However, market conditions prevented us from achieving all of our goals.

Hong Kong asset quality declined, partly due to the fall in the value of the RMB and partly due to other factors. We are working closely with our clients to assist them to adjust to the changing environment.

While the credit situation on the Mainland remains difficult, we are hopeful that the position has stabilised. The gross impaired loan formation rate at BEA China has declined year on year. As highlighted last year, we have established a special asset management team to manage and recover the BEA China impaired loan portfolio more proactively.

We are reducing our exposure to underperforming sectors of the Mainland economy, including wholesale and retail, hotels and manufacturing. In order to further offset risk, we are developing new business opportunities in priority sectors of the economy that are receiving favourable treatment from the Central Government. We doubled our aggregate loan balance to these priority industries in 2016.

### **Reducing Costs**

At the start of 2016 we announced a three-year cost-reduction campaign. We achieved 40% of our three-year plan during the first year, although the cost savings will only be fully reflected in our results in the coming years.

In Hong Kong, progress has been achieved in three main areas: Business realignment, operations excellence and streamlining the branch network. As part of the business realignment exercise, we closed all East Asia Securities retail outlets and migrated broking clients to our digital, mobile and telephone service channels.

We are actively managing our Hong Kong deposit base in order to reduce the cost of funding. Through targeted marketing, we raised our average current and savings account ratio by some three percentage points during the past year.

We have also made significant strides in reducing costs at BEA China. Largely through managed attrition, our Mainland subsidiary reduced its workforce by about 10% in 2016.

As announced last year, BEA China is merging sub-branches on the Mainland in order to improve branch efficiency. Our Mainland subsidiary achieved its targets for 2016, combining nine sub-branches. The cost savings will start to become more apparent in 2017, as further rationalisation of the Mainland branch network continues.

BEA China has also targeted funding costs, lowering the cost of deposits by adjusting its deposit structure.

Going forward, BEA China will further expand cooperation with internet finance partners in order to reach a larger customer base without the need for substantial fixed investment, and to chart a new growth path for future development in the new economy.

### **Digital Banking**

We remain on track to roll out the digital branch model across Hong Kong by the end of 2017. By embracing digital technology in our branches and by expanding our online services, we have been able to reduce floor space and streamline our branch network while improving services to our customers. Moreover, with transactions moved to our digital channels, our staff can spend more time advising clients on financial management, thus increasing product sales and contributing to our goal of earning more fee income.

In the second half of 2017, we will introduce an expanded mobile banking platform in Hong Kong, incorporating stock trading, enhanced credit-card services and personal loan services. We also plan enhancements to our Corporate Cyberbanking platform, providing even tighter integration with our client's needs. In addition, we will debut a new online securities trading service for our Hong Kong Private Banking customers.

### **Overseas**

In 2016, our overseas offices benefitted from strong interest in investment in Great Britain and the United States by local and Mainland clients. In 2017, our overseas branches will further enhance collaboration with BEA China and the Bank Group's strategic partners. More emphasis will be placed on corporate and syndication loans, while we will be selective in advancing retail customer loans.

### **Tricor Holdings**

On 5<sup>th</sup> October, 2016, the Bank announced the disposal of Tricor Holdings for a cash consideration of HK\$6,470 million. The disposal is expected to be completed in the first quarter of 2017. This will lead to a notable enhancement in the capital strength of the Bank Group.

At the end of December 2016, our Common Equity Tier 1 capital ratio stood at 12.1%.

### **Outlook**

Looking ahead, we will redouble our efforts to serve the advanced sectors of the economy and will carry forward our medium and long-term goals by pursuing digital transformation, further improving efficiency, and drawing increased value from our unique China franchise.

For 2017, we aim to increase non-interest income, mainly from treasury, insurance and wealth management operations.

By enhancing our online services, we aim to become a partner in the daily activities of our customers. Our smartphone app will become an ever-more handy tool throughout the day.

We are cautiously optimistic that loan demand will improve in most markets in 2017, even as US interest rates rise. Higher interest rates should benefit our business in Hong Kong, where we are a net lender to the Interbank market.

Barring unforeseen events, we expect asset quality to stabilise in the coming year.

Meanwhile, the tightening global regulatory environment will require greater allocation of resources to risk management and compliance, as well as a more conservative attitude to capital planning.

As we navigate this challenging period, we are taking all possible measures to strengthen our franchise. We are investing time and resources, and leveraging our unique China platform, in order to meet the increasingly sophisticated needs of retail and corporate banking clients.

In closing, I take great pleasure in thanking our Bank's Board of Directors and the directors of our subsidiaries and associated companies for their invaluable advice and support during the past year. I also thank the management and staff of BEA for their commitment, and I look forward to further progress in achieving our strategic goals during the coming year.

The support of our overseas banking partners, in particular CaixaBank and Sumitomo Mitsui Banking Corporation, provides us with a competitive advantage in the marketplace, and I am very grateful to them for their close cooperation with us. I also extend my grateful thanks to our shareholders and customers for their long-standing loyalty and confidence in this Bank.

**David LI Kwok-po**  
*Chairman & Chief Executive*

Hong Kong, 17<sup>th</sup> February, 2017

## REPORT OF THE CHIEF EXECUTIVE AND SENIOR MANAGEMENT

### FINANCIAL REVIEW

#### Financial Performance

For the year 2016, the Group achieved a profit attributable to owners of the parent of HK\$3,723 million, representing a decrease of HK\$1,799 million or 32.6%, compared with the HK\$5,522 million earned in 2015.

On 5<sup>th</sup> October, 2016, The Bank of East Asia, Limited; NWS Holdings Limited; and East Asia Secretaries (BVI) Limited entered into an agreement to sell all issued shares of Tricor Holdings Limited and its subsidiaries (collectively, the “Tricor Group”) to Trivium Investment Limited for a total consideration of HK\$6,470 million. In accordance with Hong Kong Financial Reporting Standard 5 – Non-current Assets Held for Sale and Discontinued Operations, the Group is required to report Tricor Group’s operating results for 2016 separately as discontinued operations in the consolidated income statement, with comparative information re-presented. Tricor Group’s assets and liabilities as at 31<sup>st</sup> December, 2016 are presented separately as assets held for sale and liabilities held for sale, respectively, in the consolidated financial statements. Restatement of assets and liabilities as at 31<sup>st</sup> December, 2015 is not required. The Bank expects completion of the disposal to occur during the first quarter of 2017.

The following are the key figures for continuing and discontinued operations.

Profit attributable to owners of the parent from continuing operations and discontinued operations amounted to HK\$3,505 million and HK\$218 million, respectively, representing a decrease of HK\$1,800 million, or 33.9%, and an increase of HK\$1 million, or 0.1%, as compared to 2015.

Basic earnings per share from continuing operations fell from HK\$1.86 in 2015 to HK\$1.12 in 2016, and basic earnings per share fell from HK\$1.95 in 2015 to HK\$1.21 in 2016.

Return on average assets and return on average equity fell from 0.6% to 0.4%, and from 6.6% to 4.1%, respectively.

During 2016, the Group’s net interest income from continuing operations decreased by HK\$831 million, or 7.0%, to HK\$11,098 million. Net interest margin narrowed from 1.66% in 2015 to 1.60% in 2016, largely due to pressure on BEA China’s net interest margin, which decreased from 1.82% to 1.65%.

Net fee and commission income from continuing operations decreased by HK\$312 million, or 10.7%, to HK\$2,593 million. Commission income from credit cards and custodian businesses grew, whereas income from securities and brokerage, trade finance, loans and guarantees, and retail banking services declined.

Net trading and hedging results from continuing operations increased by HK\$178 million, or 93.9%, to HK\$366 million. Overall, non-interest income from continuing operations decreased by 4.7% to HK\$3,752 million. Operating income from continuing operations decreased by 6.4% to HK\$14,850 million.

Total operating expenses from continuing operations fell by 6.3% to HK\$8,342 million. The cost-to-income ratio increased from 56.1% in 2015 to 56.2% in 2016 whereas the same ratio fell from 59.4% in the first half to 53.2% in the second half of 2016.

Operating profit before impairment losses from continuing operations was HK\$6,508 million, a decrease of HK\$455 million, or 6.5%, when compared to 2015.

Due to the persistently weak economic environment, impairment losses on loans and receivables from continuing operations grew by 70.4% to HK\$3,462 million. The Group's impaired loan ratio rose from 1.13% at the end of 2015 to 1.49% at the end of 2016. The impaired loan ratios of Hong Kong Operations and China Operations rose from 0.34% to 1.03% and from 2.44% to 2.64%, respectively.

Operating profit after impairment losses from continuing operations was HK\$3,045 million, a decrease of HK\$1,870 million, or 38.0%.

Net profit on the sale of available-for-sale financial assets from continuing operations fell to HK\$92 million. The year-on-year comparison was impacted by a net profit of HK\$146 million on the disposal of the Bank's stake in a property development and management joint venture in Mainland China in 2015.

Net profit on disposal of fixed assets from continuing operations included a net gain of HK\$888 million on certain properties in Mainland China. Associated land value-added tax and corporate income tax on the disposal, which amounted to HK\$427 million, is included in Income Tax.

Valuation gains on investment properties from continuing operations decreased to HK\$62 million.

The Group shared after-tax profits from associates of HK\$431 million from continuing operations, a decrease of HK\$125 million, or 22.5% compared to 2015, mainly due to weaker economic performance.

After accounting for income taxes, profit after taxation from continuing operations fell to HK\$3,525 million, a decrease of 33.9% compared to the HK\$5,336 million recorded in 2015.

## **Financial Position**

Total consolidated assets of the Group stood at HK\$765,706 million at the end of 2016, a decrease of 2.0% over the HK\$781,364 million at the end of 2015.

Gross advances to customers rose by 2.9% to HK\$454,242 million. However, trade bills negotiated fell by 38.9% to HK\$11,939 million, mainly due to a significant contraction in cross-border trade business.

Cash, balances, and placements with banks and other financial institutions decreased by 26.8% to HK\$109,772 million, whereas available for sale financial assets increased by 18.1% to HK\$110,491 million.

Total equity increased to HK\$86,636 million, up 1.2%.

Total deposits from customers fell by 0.9% to HK\$535,789 million. Of the total, demand deposits and current account balances increased by HK\$1,841 million, or 2.5%; savings deposits increased by HK\$13,130 million, or 11.6%; and time deposits decreased by HK\$19,925 million, or 5.6%. Total deposit funds, comprising deposits from customers and all certificates of deposit issued, fell by 2.3% to HK\$564,646 million.

The loan-to-deposit ratio stood at 80.4% at the end of 2016, compared to 76.4% at the end of 2015.

The total capital ratio, tier 1 ratio, and common equity tier 1 ratio were 17.4%, 13.5%, and 12.1%, respectively, as at 31<sup>st</sup> December, 2016. The average liquidity coverage ratio for the quarter ended 31<sup>st</sup> December, 2016 was 137.2%, which was well above the statutory limit of 70% for the year 2016.

## RATINGS

### S&P Global Ratings

|                                                                |          |
|----------------------------------------------------------------|----------|
| <i>The Bank of East Asia, Limited</i>                          |          |
| Long-term Counterparty Credit<br>(local and foreign currency)  | A        |
| Short-term Counterparty Credit<br>(local and foreign currency) | A-1      |
| Outlook                                                        | Negative |

|                                                                |          |
|----------------------------------------------------------------|----------|
| <i>The Bank of East Asia (China) Limited</i>                   |          |
| Long-term Counterparty Credit<br>(local and foreign currency)  | A        |
| Short-term Counterparty Credit<br>(local and foreign currency) | A-1      |
| Outlook                                                        | Negative |

### Moody's Investor Service

|                                                         |          |
|---------------------------------------------------------|----------|
| <i>The Bank of East Asia, Limited</i>                   |          |
| Long-term Bank Deposit<br>(local and foreign currency)  | A3       |
| Short-term Bank Deposit<br>(local and foreign currency) | Prime-2  |
| Outlook                                                 | Negative |

The negative outlook mainly reflects anticipated weaker operating conditions and potentially lower levels of government support, given the likelihood that Hong Kong will adopt a bail-in resolution regime.

## BUSINESS REVIEW

Global economic growth remained soft during 2016. While the United States economy enjoyed continued strength, economic performance in Europe and China was disappointing.

With weak external demand, Hong Kong's exports fell by 0.5% in 2016. Growth in private consumption moderated as the pace of employment creation slowed. Tourist spending remained weak throughout the year, dragging retail sales down by 8.1% year on year in 2016. Nevertheless, the unemployment rate remained steady at 3.3% to 3.4% throughout the year.

Residential property prices climbed by 7.6% in 2016. In the fourth quarter, the government introduced new cooling measures to dampen demand and contain prices.

Overall, the Hong Kong economy expanded at a lacklustre 1.4% pace in the first three quarters of 2016.

On the Mainland, investment growth moderated as China put the brakes on credit growth in order to address concerns about overleveraging. The export sector continued to face headwinds as demand from European and emerging markets remained subdued. Slowing growth also dragged down consumer spending. Meanwhile, rising property prices offered some respite from the gloom. Rapid development in the internet sector has also provided growth momentum.

Looking ahead to 2017, the US economy is expected to perform well, while Europe and Japan will underperform. Meanwhile, all eyes are on the new Trump administration for any policy changes that may impact global markets.

The Chinese government will remain preoccupied with structural development issues, and will manage the economy with the aim of encouraging sustainable growth. Consumer demand will remain muted. The Chinese economy is likely to grow by 6.7% in 2017, with inflation at around 2%.

In Hong Kong, exports will be adversely affected on two fronts: by the challenges facing China's export industries and by the strong US dollar. Meanwhile, higher US interest rates and a likely correction in the property market will weigh on consumer confidence. Gross domestic product growth is forecast to average 1.4% for 2017, while the inflation rate will average at 2.4%.

## **Business – Hong Kong**

The aggregate value of all customer loans and trade bills of BEA in Hong Kong was 5.1% higher at the end of December 2016 compared to the end of 2015. Customer loans alone rose by 7.1% year on year. Meanwhile, debt investments increased by 26.6%, while customer deposits rose by 4.1%.

### **Corporate and Commercial Banking**

Corporate Banking faced a challenging year in 2016. Both net interest income and net fee and commission income fell, leading to a 17.8% decline in operating income compared to 2015.

Slower Mainland growth, a declining RMB and challenging economic conditions in Hong Kong weighed on the local SME sector. Impaired loans rose, although most of the related lending is backed by assets.

Competition for lending to local blue-chips remains intense, and pricing has continued to tighten as a result. However, the recent pay down in trade bills gave the Bank room to increase lending to quality Mainland corporates, as they sought to expand and invest abroad. Such lending generally offered higher returns. Overall, the Hong Kong corporate loan and trade bills portfolio rose by 3.9% in 2016. Holdings of high-quality corporate notes and bonds also grew, by 25.5%.

In light of the challenging environment, the Bank is focussing on expanding relationships with certain target customers. Improvements are being made to services that support client business growth, including cash management and trade and working capital solutions. Enhancements to the Corporate Cyberbanking platform are also planned in order to encourage customers to migrate their transactions online, saving branch resources and increasing customer satisfaction.

Looking ahead to 2017, there are uncertainties over Sino-US relations, the impact of US rate hikes, and the consequences of Mainland curbs on capital outflows. It is therefore likely that volatility will increase in the months ahead. Despite this instability, BEA remains committed to its proven dual-platform model as a key driver for future growth. The Bank will continue to work closely with BEA China to source new opportunities for cross-border business.

### **Retail Banking**

Personal Banking proved its resiliency in 2016 in the face of challenging market conditions. The division's operating income increased by 5.7%, led by rises in both net interest income and net fee and commission income.

The project to digitalise the Hong Kong branch network remains on track. As of December 2016, 53 branches had been upgraded to the digital model. Take-up of new accounts from target segments has increased at transformed branches. As a whole, the Bank recorded a 15.0% rise in major all-in-one accounts – SupremeGold, Supreme, and CorporatePlus – leading to an 8.7% increase in average daily retail current and savings account balances in Hong Kong compared to the previous year.

Product sales have also benefitted from digitalisation, as branch staff are freed up to focus on sales rather than basic transactions. Commission income from investment and insurance products rose by 12.4% and 30.4% year-on-year, respectively, in 2016.

Meanwhile, the popularity of insurance products bundled with premium financing contributed to a 71.0% increase in consumer loans. The mortgage loan portfolio grew by 4.3%, despite keen market competition and the launch of additional government cooling measures.

The branch digitalisation project will continue into 2017, with the aim of transforming the entire Hong Kong network by the end of the year. In addition, the Bank's digital service infrastructure is undergoing a comprehensive overhaul. Upgrades to the underlying hardware and software will enable the Bank to meet growing demand for mobile and online banking services.

## **Wealth Management**

After a strong year in 2015, Private Banking maintained a similar performance level in 2016. Results were bolstered by continued demand from Mainland clients for asset diversification.

Net fee and commission income rose by 9.6%, on strong insurance product sales, while net interest income increased by 3.2%. However, overall operating income was flat year-on-year due to lower client investment activity in stock trading, FX derivatives and structured products. Loans and assets under management were lower.

Digital initiatives, including portfolio analysis tools for sales staff and a dedicated Cyberbanking service for Private Banking customers, were successfully launched during the year. The new sales tools have proven popular, and the Bank is exploring the possibility of making the portfolio analysis software available to clients for use on their personal devices. To further enhance the digital platform, an online stock trading service will be launched for Private Banking customers in 2017.

Despite uncertainty over the outlook in the short-term, the size of the Mainland market means that opportunities abound, particularly given the Bank's strong China presence. Collaboration with BEA China has been stepped up to promote Private Banking's holistic wealth management solutions, offering tailored products to encourage more client referrals. The Bank will continue to focus on expanding its Mainland client base in the years ahead.

## **Insurance and MPF Services**

BEA Life Limited, the Bank's wholly-owned life insurance arm, had another encouraging year in 2016, recording year-on-year growth of 34.5% in new premium income. Short-term products with guaranteed returns were in high demand, as risk-averse investors sought alternative strategies. Long-term products have also sold particularly well, with premium income more than doubling compared to 2015.

Conditions for general insurance, on the other hand, remained difficult. Despite tight competition in the market, Blue Cross (Asia-Pacific) Insurance Limited, BEA's wholly-owned general insurance arm, achieved growth of 3.8% in premium income for the year under review. The company's strategy to retain quality group medical insurance customers while maintaining reasonable margins has been successful. In addition, existing group medical insured employees have been offered more coverage options for top-up medical plans, and can apply for the plans via the internet. Domestic helper insurance renewals can also be made online, and this convenience will be extended to all personal general insurance products in 2017.

In anticipation of the introduction of the Hong Kong Government's healthcare reforms, changes have been made to enhance the claim mechanism for existing major individual medical insurance products, effective January 2017. Under the new arrangement, the amount of medical coverage enjoyed by clients will be restored every year, without the limits per disability that previously applied. This change aims to meet the government's objective of ensuring life-long medical insurance coverage.

Total membership in BEA's Mandatory Provident Fund schemes grew to 682,890.

Despite the unfavourable investment environment, AUM increased by 8.2% year-on-year to HK\$20.7 billion. BEA continues to ensure that management fees for its funds are competitive. Half of the constituent funds under the three BEA MPF schemes now have a fund expense ratio of 1.25% or below. The latest overall weighted average fund expense ratio of the three schemes was 1.30%, well below the MPF industry average.

Under the Default Investment Strategy, new standardised, fee-controlled funds will be introduced in each of the three BEA MPF schemes starting 1<sup>st</sup> April, 2017. The DIS will apply automatically to MPF members who do not specify investment choices.

### **Broking Operations**

Responding to a shift in stock trading behaviour among customers, East Asia Securities Company Limited undertook a change in its business model during 2016 to dispense with all of its physical outlets. Resources were re-allocated to support other trading channels, particularly the Company's internet and mobile applications. In December 2016, EAS successfully launched Shenzhen-Hong Kong Stock Connect service, enabling investors to buy stocks on Mainland China's most actively traded stock exchange.

Turnover for 2016 declined in line with the drop in average daily turnover of the Stock Exchange of Hong Kong. Pre-tax profit, however, fell by more than 50% due to high fixed costs.

The outlook for 2017 remains challenging. Uncertainties stemming from the impact of the invocation of Article 50 in the United Kingdom on its exit from the European Union, the extent to which the newly elected President Trump follows through on his campaign proposals, and the pace of depreciation of the RMB will dictate investors' sentiment. EAS will continue to improve operational efficiency by enhancing its IT infrastructure and streamlining operations.

### **Business – Greater China ex-Hong Kong**

#### ***Mainland China Operations***

The operating environment in Mainland China remained tough in 2016, amid global market uncertainties and on-going domestic structural adjustments. Mainland policymakers continued their efforts to rebalance the economy through supply-side structural reforms. However, adjustments are proceeding slowly against a backdrop of weak external demand, excess industrial capacity and lacklustre investment sentiment. The RMB fell against the strong US dollar during the year, the first significant annual decline in the value of the RMB in two decades.

The Mainland's GDP growth rate decelerated to 6.7% in 2016, the slowest pace in a quarter of a century. This weakness impacted BEA China's performance. Interest income was battered by the economic slowdown, the low interest rate environment and the reform of the value-added tax regime. In addition, year-on-year declines are amplified when expressed in Hong Kong Dollars, due to the fall in the value of the RMB during the past year.

BEA China reported a pre-provision operating profit of HK\$1,607 million for 2016, down 25.3% year-on-year. Advances to customers declined by 7.1%, to HK\$139,389 million as at 31<sup>st</sup> December, 2016. Net interest income decreased by 14.1% to HK\$3,977 million.

Customer deposits stood at HK\$181,326 million as of 31<sup>st</sup> December, 2016, a 9.8% decrease from a year earlier. The loan-to-deposit ratio was steady at 75.6%.

To address the difficult operating environment, BEA China focused its efforts on enhancing resilience through capital injection, de-risking and business consolidation.

In June 2016, the Bank injected additional capital of CNY1 billion into BEA China, in order to further strengthen the bank's capital base and enhance its ability to withstand difficult times. BEA China's registered capital stood at CNY12.16 billion as of the end of 2016.

BEA China management introduced a range of measures in 2015 aimed at improving asset quality, in anticipation of further weakness in the operating environment in 2016. These measures included stricter credit guidelines, centralisation of credit approval and stepped up loan recovery efforts.

The impact of these precautionary measures is evident. BEA China experienced a lower gross impaired loan formation rate in 2016. To further strengthen its financial position, BEA China sold some non-performing loans to third parties in the second half of 2016.

For the year, BEA China recorded a net loss of HK\$461 million. Disposal of the impaired loans caused short-term pain. However, following this exercise BEA China is now better placed for the future.

During the past year, BEA China further reduced its exposure to the manufacturing, hotel, and wholesale and retail sectors, all of which remain under stress in the face of the economic slowdown. The corporate lending team has instead courted stable, large-scale state-owned enterprises and focused on six priority industries including public utilities, health care and pharmaceuticals, logistics, environmental protection and clean energy, food and education. The aggregate loan balance to these priority industries, which are supported by national policies, doubled in 2016.

This realignment, coupled with higher efficiency in the use of funds, helped relieve pressure on BEA China's net interest margin – which improved from 1.61% in the first half of 2016 to 1.70% in the second half of the year.

At the same time, BEA China is cognisant that the economic restructuring process on the Mainland will continue. Government policies will ensure that interest rates remain at a relatively low level. In order to improve profitability going forward, BEA China has successfully implemented an aggressive programme to control costs. In addition, management is actively developing new, fee-based sources of income.

Significant progress has been made in streamlining the branch network during the past year. Four sub-branches were merged with other outlets in the first half of 2016, followed by a further five in the second half. In addition, two sub-branches were relocated. As a result, as of the end of 2016, BEA China's branch network consisted of 30 branches and 89 sub-branches in 44 cities – still one of the most extensive networks of any foreign bank in Mainland China.

In line with the network repositioning programme, BEA China has trimmed its workforce by about 10%. Assisted by this reduction, BEA China's underlying operating expenses for the year fell to HK\$3,178 million, 12.9% lower than in 2015. The business is on track to deliver cost savings of HK\$450 million by 2018. The full benefits of these measures will take time and will continue to flow through in the coming years.

The Mainland economy stabilised in the second half of 2016, with a rebound in fixed asset investment, higher retail sales and an improvement in the Producer Price Index. The property market in Tier-1 cities also remains strong. As we enter 2017, supply-side structural reforms should boost consumption and support emerging industries in the service sector.

There remains strong potential for BEA to grow on the Mainland, as the needs of corporate and retail clients become increasingly more sophisticated. For example, BEA China is serving more demand for cross-border business solutions, treasury and wealth management products, helping to boost BEA China's non-interest income. By streamlining its operations through digitalisation and process enhancement, BEA China is poised to capture more opportunities with roughly the same resource base.

BEA China is also transforming its growth path by deepening co-operation with strategic partners in areas such as consumer finance and internet finance. Partnerships are an ideal way for BEA China to mitigate risk and leverage its operations expertise as it seeks opportunities in the new economy.

Although risks and uncertainties will persist in 2017, BEA China remains well equipped to pursue further growth opportunities. By becoming nimbler and investing prudently, BEA China will be able to respond flexibly and swiftly to changes in the market environment.

### ***Macau and Taiwan Operations***

The operating environment in Macau remains challenging, with the slowdown in the gaming industry, stagnant economic growth and rising operating costs. However, the asset quality of BEA Macau remains healthy, with prudent risk management in place.

As part of efforts to rationalise the branch network, Macau Areia Preta Sub-branch was closed in June 2016. Currently, the Bank maintains four outlets in Macau.

Looking ahead, in addition to further developing corporate banking services, BEA Macau will allocate more resources to boost retail banking business, with emphasis on investment and insurance products.

In Taiwan, the Bank closed Kaohsiung Branch at the end of September 2016 in order to consolidate resources. BEA maintains a branch in Taipei to serve domestic and offshore banking needs.

BEA Taiwan is also leveraging on the Group's global network to support Taiwan enterprises to go overseas. The Taipei Branch also assists Mainland companies to raise funds for offshore investments. In the coming year, BEA Taiwan will continue to be active in the syndicated loan market as an arranger, particularly in deals involving Mainland customers.

### **Business – International**

Despite the challenging global economic environment, BEA's international operations achieved satisfactory growth in both loan assets and profitability in 2016.

BEA's Singapore Branch recorded a 10.5% decrease in its loan portfolio in 2016, mainly due to a decline in China cross-border trade loans. Against the backdrop of an economic downturn, Singapore Branch stepped up efforts to improve the credit quality of its loan portfolio by exiting from riskier sectors and industries. To diversify its asset mix and sustain net interest margins, the Branch enlarged its portfolio of Singapore dollar-denominated corporate debt securities investments during the year under review. In 2017, the Branch will continue to focus on expanding its syndicated and bilateral corporate loan portfolio, especially among larger new-to-bank clients, and increase its efforts to generate fee-based income.

Labuan Branch performed well and delivered strong profit growth despite the economic turmoil in Malaysia. In 2017, the Branch will continue providing regional syndicated and bilateral loans to local Malaysian companies while expanding its non-interest income portfolio by extending more bank guarantees and stand-by letters of credit.

The Bank's operations in the UK registered steady growth in loan assets and profitability in 2016, shaking off any adverse impact of the UK vote to leave the European Union. On the back of the post-Brexit depreciation of the pound sterling and the Bank of England's aggressive interest rate cut, overseas investors have remained keen to acquire quality assets in the UK, particularly prime London properties.

Commercial and residential property lending continue to be the primary growth drivers of the Bank's UK operations. In an effort to diversify risk, the Branch will strive to broaden its loan portfolio by seeking opportunities in corporate syndication and non-property lending. With recent strong inward investment from the Mainland, the China Desk of UK Branch has been working closely with Chinese and Asian banks in order to participate in more corporate lending and club financing deals.

BEA's US operations recorded a strong year, with the loan portfolio growing by 34% and net profits by 46%. Asset quality improved with the impaired loan ratio falling to 0.14% as at 31<sup>st</sup> December, 2016 from 0.58% at the end of 2015. The strong 2016 performance was the result of steady economic growth amid the low interest rate environment, which drove demand for commercial and industrial corporate syndication financing and property investment in prime New York and Los Angeles locations.

The markets rallied in November 2016 following the election of Republican Donald Trump as President, expecting that he will pursue market-friendly policies including corporate and income tax cuts and spending on basic infrastructure. However, the markets have also signalled a pick-up in inflation and higher interest rates.

In view of the uncertainties presented by a new Administration, BEA's New York and Los Angeles branches have adopted prudent loan underwriting standards with a focus on high quality corporate and syndicated loans as well as commercial real estate financing. The US Branch will continue to closely monitor market conditions and adjust its business strategy accordingly in the year ahead.

Going forward, the Bank's international branches will leverage on BEA's extensive network in China and strong relationship with its strategic partners in Asia and Europe to step up customer referrals and expand cross-border business collaboration to reach new potential clients.

## **Other Subsidiaries**

### **Credit Gain Finance Company Limited**

Credit Gain faced stringent regulatory risk and compliance demands during the year under review. The imposition of a high degree of regulatory control over credit risk compelled Credit Gain to reduce its risk tolerance in loan underwriting, which led to a decline in loan portfolio growth during the year. To maintain its competitive edge, the Company rationalised its branch network in 2016 while enhancing its online platform.

Credit Gain's two micro-finance companies on the Mainland, Shenzhen Credit Gain Finance Company Limited and Chongqing Liangjiang New Area Credit Gain Finance Company Limited, froze expansion plans and focused on improving loan asset quality amidst the challenging environment on the Mainland.

## Tricor Holdings Limited

Tricor reported record-high revenue for 2016. In May, Tricor established its first Australian office, in Brisbane. As at the end of the year, Tricor's network covered 37 cities in 20 markets worldwide.

## BEA Union Investment Management Limited

BEA Union Investment recorded a 15% increase in AUM year on year in 2016. This growth was mainly due to the Company's success in penetrating both the retail and institutional sectors in Asia, particularly in Hong Kong and the Mainland.

In response to the growing demand from retail investors for funds with income features, BEA Union Investment introduced the Global Flexi Allocation Fund and China High Yield Income Fund in 2016. BEA Union Investment also garnered new mandates from institutional clients.

Looking ahead, BEA Union Investment will continue to broaden its product offering, capture opportunities arising from the Hong Kong-China mutual fund recognition programme, and expand its distribution channels and institutional client base in the Greater China region.

## Our People

As of 31<sup>st</sup> December, 2016, the BEA Group's continuing operations employed 10,389 people:

| Continuing Operations      | As of 31 <sup>st</sup> December, 2016 | As of 31 <sup>st</sup> December, 2015<br>Restated |
|----------------------------|---------------------------------------|---------------------------------------------------|
| Hong Kong                  | 4,506                                 | 5,183                                             |
| Greater China ex-Hong Kong | 5,496                                 | 6,192                                             |
| Overseas                   | 387                                   | 393                                               |
| Total                      | 10,389                                | 11,768                                            |

In an effort to contain costs amid a challenging business environment, BEA conducted a thorough review of its business and operations, which was completed in the second quarter of 2016. Following the review, the Bank streamlined workflows through various means, including process re-engineering and automation. This realignment exercise also resulted in approximately 180 redundancies in Hong Kong. Staff members made redundant were offered severance packages that exceed the requirements set out in the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).

During the year under review, BEA continued to recruit high-calibre talent to fill critical functions. The Bank also maintained its programme of recruiting top recent graduates for its Management Trainee programme.

BEA regularly benchmarks itself against best market practices for remuneration and benefits. In 2016, the Bank enhanced its policies on business trips, overtime, medical benefits for dependent children, and bereavement leave.

BEA encourages staff members to pursue qualifications related to their work, providing them with opportunities for upward mobility within the organisation. During the year under review, the Bank introduced new staff benefits including tuition sponsorship for master degree programmes and examination leave for job-related courses.

The Bank's Human Capital Management System, "myHR", and Learning Management System, "Learning@BEA", were further enhanced in 2016 to facilitate the management of Enhanced Competence Framework for banking staff members in terms of core competence and ongoing professional development.

## **RISK MANAGEMENT**

### **Risk Management Framework**

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

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

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

### **Enterprise Risk Management**

In April 2016, the Board approved an enterprise risk management framework for the Group. The ERM framework is promulgated with the objectives to identify and manage potential risks in a holistic and effective manner, to fulfil the HKMA's higher expectation for risk management of the Group as a Domestic Systemically Important Bank, and to reinforce the "Three Lines of Defence" risk management model.

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

- The first line of defence comprises the Risk Owners, who are division heads at Head Office and heads of significant subsidiaries, together with staff under their management. They are primarily responsible for the day-to-day risk management of their units, including establishing and executing specific risk control mechanisms and detailed procedures.
- The second line of defence consists of the Risk Controllers, who are designated division / department heads at Head Office. Supported by their respective divisions and departments, the Risk Controllers are responsible for setting out a risk management governance framework, monitoring risks independently and supporting the management committees in their oversight of risk management.
- The third line of defence is the Internal Audit Division, which is responsible for providing assurance on the effectiveness of the Group's risk management framework including risk governance arrangements.

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

## Principal Risks

The Group faces a variety of risks that could affect its franchise, operations, and financial conditions. Under the ERM framework, the principal risks include credit risk, interest rate risk, market risk, liquidity risk, operational risk, reputation risk, strategic risk, legal risk, compliance risk, technology risk, business continuity risk, and new product and business risk.

The Group has formulated policies to identify, measure, monitor, control, and report on the various types of risk and, where necessary, to allocate adequate capital to cover those risks. These policies are reviewed and revised on a regular basis to align with market changes, statutory requirements, and best practices in risk management processes.

Measures have been adopted to manage and mitigate these risks. Moreover, these risk factors are taken into consideration when formulating the Group's risk appetite statement.

| Risk          | Description                                                                                                                                                                                                                                                                                                                                      | Management Measures                                                                                                                                                                                                                                                                                                                                                                              |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Credit        | Risk of loss arising from a borrower or counterparty failing to meet its obligations                                                                                                                                                                                                                                                             | Establishment of comprehensive policies, guidelines, and manuals to set out credit control limits, delegated lending authorities, credit underwriting criteria, a credit monitoring process, an internal rating structure, credit recovery procedures, and a provisioning policy                                                                                                                 |
| Interest rate | Risk resulting from adverse movements in interest rates                                                                                                                                                                                                                                                                                          | <ul style="list-style-type: none"> <li>- Establishment of comprehensive policies, guidelines, and manuals to set out control limits</li> <li>- In determining the level of interest rate risk, assessments are made for the repricing risk, basis risk, options risk, and yield curve risk components</li> </ul>                                                                                 |
| Market        | Risk arising from adverse movements in other market factors such as foreign exchange, equity prices, and commodities prices, which result in profits or losses for the Group                                                                                                                                                                     | <ul style="list-style-type: none"> <li>- Establishment of comprehensive policies, guidelines, and manuals to set out control limits</li> <li>- Measurement and monitoring of potential loss due to adverse price movements and market volatility</li> </ul>                                                                                                                                      |
| Liquidity     | Risk that the Group may not be able to meet its obligations as they come due because of an inability to obtain adequate funding (funding liquidity risk); or that the Group cannot easily liquidate assets quickly without significantly lowering market prices because of inadequate market depth or market disruptions (market liquidity risk) | <ul style="list-style-type: none"> <li>- Establishment of comprehensive policies, guidelines, and manuals to set out control limits and internal liquidity metrics</li> <li>- Conducting cash flow analysis to monitor funding needs</li> <li>- Contingency funding plan to clearly stipulate procedures and mitigating actions required to meet liquidity needs in crisis situations</li> </ul> |

| Risk        | Description                                                                                                                                                                                                                                                                                                                                                                 | Management Measures                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Operational | Risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events                                                                                                                                                                                                                                                            | Establishment of comprehensive policies, guidelines, and manuals to identify, assess, monitor, and report operational risk of the Bank Group systematically and effectively, such as setting out operational risk incident reporting, risk control self-assessment, key risk indicators, insurance policies, etc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Reputation  | Risk that the Group's reputation is damaged by one or more events, which result in negative publicity about the business practices, conduct, or financial condition of the Group. Such negative publicity, whether true or not, may impair public confidence in the Group, result in costly litigation, or lead to a decline in its customer base, business, and/or revenue | <ul style="list-style-type: none"> <li>- Establishment of various policies, guidelines, manuals, and codes to ensure compliance with applicable laws, rules, and regulations, and to ensure that the Bank Group maintains a high standard of corporate governance, which in turn helps to safeguard and enhance the Group's reputation</li> <li>- Formulation of, and adherence to, the Reputation Risk Management Manual, which outlines a systematic approach to the management of reputation risk, including a framework for reputation risk identification, assessment, monitoring, mitigation, and control, thereby protecting and enhancing the reputation of the Bank Group</li> <li>- Establishment of the Guidelines for Incident Response and Management for swift response to and management of unexpected incidents</li> <li>- Establishment of the Media Guidelines to ensure effective and consistent delivery of the Group's key messages to the media</li> </ul> |
| Strategic   | Risk of current or potential impact on the Group's earnings, capital, reputation, or standing arising from changes in the environment the Group operates in, adverse strategic decisions, improper implementation of decisions, or lack of responsiveness to industry, economic, or technology changes                                                                      | <ul style="list-style-type: none"> <li>- Establishment of comprehensive policies, guidelines, and manuals, to set out control limits and measures</li> <li>- Capital management through projection of the Capital Adequacy Ratio and Internal Capital Adequacy Assessment Process to assess the level and structure of capital resources needed to support the risks that the Group tolerates</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

| Risk       | Description                                                                                                                                                                                                                                                                                                                     | Management Measures                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Legal      | Risk of loss arising from unenforceable contracts, lawsuits, or adverse judgments that may disrupt or otherwise negatively affect the operations or financial condition of the Group                                                                                                                                            | <ul style="list-style-type: none"> <li>- Establishment of comprehensive policies, guidelines, and manuals</li> <li>- Provision of appropriate training courses conducted by qualified internal personnel and / or external lawyers / professionals and the issue of regular reminders to staff members</li> <li>- Engagement of qualified internal personnel and, when necessary and appropriate, external lawyers with appropriate expertise including counsel and senior counsel for advice</li> </ul>                                                                                                                                                                                                                                                                                                 |
| Compliance | Risk of loss arising from legal or regulatory sanctions, fines and penalties, financial losses, or damage to reputation that the Group may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking activities | <ul style="list-style-type: none"> <li>- Establishment of various policies, guidelines, and manuals to ensure compliance with all applicable legislation, rules, codes of conduct, industry standards, and guidelines issued by the relevant regulatory authorities, which govern the Group's operations</li> <li>- Formulation of, and adherence to, the Group Compliance Risk Management Manual, which outlines a systematic approach to the management of compliance risk, including a framework for compliance risk identification, assessment, monitoring, mitigation, and control, thereby enabling the Bank Group to manage its compliance risk effectively</li> <li>- Conduct of independent regulatory compliance reviews on major functions of the Bank using a risk-based approach</li> </ul> |
| Technology | Risk of loss to the Group due to inadequate or failed technical processes, people, and/or computing systems, or unauthorised access or disruption to technology resources, in particular relating to cyber security and e-banking                                                                                               | <ul style="list-style-type: none"> <li>- Establishment of a technology risk management framework, supported by comprehensive control policies, standards, guidelines, and procedures</li> <li>- Adoption of control measures relating to the security of internet systems and applications, customer authentication, risk assessment for new products and services, and confidentiality and integrity of information</li> </ul>                                                                                                                                                                                                                                                                                                                                                                          |

| Risk                     | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Management Measures                                                                                                                                                                                                                                                                                                                                                                                                                |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Business Continuity      | Risk of loss arising from business disruptions in the event of an incident or crisis. Business disruption could be caused by the loss of staff members, information technology and telecommunication systems, premises, key service providers, vital records, etc.                                                                                                                                                                                                                                                                                                      | <ul style="list-style-type: none"> <li>- Establishment of comprehensive policies, guidelines, and manuals</li> <li>- The conducting of business impact analysis and development of business continuity plans by all individual functional units of the Bank Group</li> <li>- Performing annual drills to test preparedness and effectiveness of business continuity plans</li> </ul>                                               |
| New Product and Business | Risk of loss due to insufficient pre-assessment of significant potential risks introduced to the Group, which arise from the launch of new products, the structural change of existing products, and the establishment of new business operations (i.e. through the establishment of a new subsidiary and/or merger & acquisition). The significant potential risks include Credit Risk, Market Risk, Operational Risk, Liquidity Risk, Interest Rate Risk, Legal Risk, Technology Risk, Compliance Risk, Strategic Risk, Reputation Risk, and Business Continuity Risk | <ul style="list-style-type: none"> <li>- Establishment of a robust risk governance structure, supported by comprehensive control guidelines and procedures</li> <li>- A structured process, which ensures that when initiating a new product or business, the potential significant risks are duly assessed, documented, and approved; It also facilitates Senior Management's oversight of new products and businesses</li> </ul> |

### Principal Uncertainties

The key uncertainties facing the Group in 2017 and the mitigating measures are set out below:

| Uncertainty                                      | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mitigating Measures                                                                                                                                                                                                                                                                       |
|--------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Economic conditions in the Group's major markets | <p>The Group's major markets are Hong Kong and Mainland China.</p> <p>Downturn in economic conditions in the major markets can adversely affect:</p> <ul style="list-style-type: none"> <li>- the financial conditions and repayment ability of borrowers;</li> <li>- personal consumption and customer demand for banking products; and</li> <li>- collateral values.</li> </ul> <p>The US Federal Reserve's decision to raise interest rates may impact customers' debt-servicing ability and property prices. In particular, the timing, frequency, and magnitude of US rate hikes may increase uncertainties concerning the pace of global economic recovery, asset prices, and the foreign exchange market.</p> | <ul style="list-style-type: none"> <li>- The business strategies take into consideration changing economic conditions.</li> <li>- Economic trends are closely monitored.</li> <li>- The suitability of risk management policies and controls are reviewed on an ongoing basis.</li> </ul> |

| Uncertainty                    | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Mitigating Measures                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Legal and regulatory changes   | In view of the increasingly complex operating environment, legal and regulatory requirements are becoming more stringent, which may impact the Group's business strategies, operations, funding, and capital management.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <ul style="list-style-type: none"> <li>- The Group keeps abreast of legal and regulatory developments.</li> <li>- The Group reviews consultation papers on new laws and regulations to assess their impact on the Group. Where appropriate, the Group will provide input to the regulators both directly and through industry groups.</li> </ul>                                                                                                                                           |
| External fraud                 | External fraud has become more sophisticated and more difficult to prevent in a digital environment.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <ul style="list-style-type: none"> <li>- Control measures have been formulated to detect and prevent fraud.</li> <li>- The control measures are reviewed and enhanced on an ongoing basis, taking into consideration the causes of external fraud incidents and the changing technological environment.</li> </ul>                                                                                                                                                                         |
| Foreign exchange rate movement | <p>A major challenge for the Group in 2017 is the persistently strong US dollar. In particular, the market expectation of more interest rate hikes, the policy positioning of the new US President, and the fear of economic uncertainty following Brexit will increase volatility in foreign currency markets.</p> <p>In addition, slower economic growth in China and the abrupt devaluation of the RMB have unnerved market sentiment, with some expecting the RMB to enter a period of high volatility.</p> <p>Unexpected fluctuations in foreign exchange rates could affect:</p> <ul style="list-style-type: none"> <li>- the value of the Group's foreign currency and capital positions; and</li> <li>- the wealth of the Group's customers and their repayment ability; it will also affect counterparty credit exposure of the derivative transactions.</li> </ul> | <ul style="list-style-type: none"> <li>- The Group closely monitors exchange rate movements and has laid down policies to manage currency risk.</li> <li>- Regular stress tests are conducted to assess the impact of exchange rate movements on profit and loss and capital adequacy.</li> <li>- The Group closely observes market movements. The Group will monitor its businesses in China and regularly review the profile of customers with exposure to China and the RMB.</li> </ul> |

## Certificates of Deposit, Debt Securities Issued, and Loan Capital

In 2016, BEA issued floating rate certificates of deposit and debt securities with a face value of US\$275 million; fixed rate certificates of deposit and debt securities with a face value of HK\$3,990 million, US\$928 million, CNY1,050 million, GBP278 million, and SGD50 million; and zero coupon certificates of deposit and debt securities with a face value of HK\$2,923 million, US\$1,652 million, CNY3,400 million, GBP36 million, and EUR436 million. The Group redeemed certificates of deposit and debt securities amounting to HK\$56,185 million equivalent upon maturity.

At the end of December 2016, the face value of the outstanding certificates of deposit and debt securities issued was equivalent to HK\$36,067 million, with a carrying amount equivalent to HK\$36,011 million.

### Maturity Profile of Certificates of Deposit and Debt Securities Issued

As at 31<sup>st</sup> December, 2016

(All expressed in millions of dollars)

|                                                                                           | <b>Total<br/>Face Value</b> | <b>Year of Maturity</b> |                    |                    |
|-------------------------------------------------------------------------------------------|-----------------------------|-------------------------|--------------------|--------------------|
|                                                                                           |                             | <b><u>2017</u></b>      | <b><u>2018</u></b> | <b><u>2019</u></b> |
| <b>Floating Rate</b>                                                                      |                             |                         |                    |                    |
| HKD                                                                                       | 300                         | 300                     |                    |                    |
| USD                                                                                       | 325                         | 325                     |                    |                    |
| <b>Fixed Rate (Note)</b>                                                                  |                             |                         |                    |                    |
| HKD                                                                                       | 5,554                       | 4,571                   | 683                | 300                |
| USD                                                                                       | 1,498                       | 1,463                   | 35                 |                    |
| CNY                                                                                       | 450                         | 450                     |                    |                    |
| GBP                                                                                       | 128                         | 128                     |                    |                    |
| SGD                                                                                       | 100                         | 100                     |                    |                    |
| <b>Zero Coupon</b>                                                                        |                             |                         |                    |                    |
| HKD                                                                                       | 1,942                       | 1,942                   |                    |                    |
| USD                                                                                       | 1,062                       | 1,062                   |                    |                    |
| CNY                                                                                       | 3,255                       | 3,255                   |                    |                    |
| <b>Total Certificates of Deposit<br/>and Debt Securities issued in<br/>HKD equivalent</b> | <b>36,067</b>               | <b>34,812</b>           | <b>955</b>         | <b>300</b>         |

Note:

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

In 2016, BEA issued fixed rate loan capital with a face value of US\$500 million.

At the end of December 2016, the face value of the outstanding loan capital issued was equivalent to HK\$20,568 million, with a carrying amount equivalent to HK\$20,608 million.

### Maturity Profile of Loan Capital

As at 31<sup>st</sup> December, 2016

(All expressed in millions of dollars)

|                                                        | <b>Total<br/>Face Value</b> | <b>Year of Maturity</b> |                    |                    |                    |
|--------------------------------------------------------|-----------------------------|-------------------------|--------------------|--------------------|--------------------|
|                                                        |                             | <b><u>2020</u></b>      | <b><u>2022</u></b> | <b><u>2024</u></b> | <b><u>2026</u></b> |
| USD (Notes 1, 2 & 3)                                   | 2,100                       | 600                     | 500                | 500                | 500                |
| SGD (Note 4)                                           | 800                         |                         | 800                |                    |                    |
| <b>Total Loan Capital issued in<br/>HKD equivalent</b> | <b>20,568</b>               | <b>4,653</b>            | <b>8,161</b>       | <b>3,877</b>       | <b>3,877</b>       |

#### Notes:

1. The US\$500 million loan capital that matures in 2022 will be callable on 4<sup>th</sup> May, 2017.
2. The US\$500 million loan capital that matures in 2024 will be callable on 20<sup>th</sup> November, 2019.
3. The US\$500 million loan capital that matures in 2026 will be callable on 3<sup>rd</sup> November, 2021.
4. Callable on 13<sup>th</sup> September, 2017.

### COMPLIANCE

Compliance is an integral part of the Group's corporate governance. BEA is acutely aware of the potential risks of regulatory non-compliance, which could lead to legal or regulatory sanctions, supervisory actions or financial penalties imposed by regulators, financial losses, and/or the loss of reputation to the Group (i.e. compliance risk).

To address the growing compliance requirements, the Compliance Division is discharged with the responsibility of overseeing the regulatory compliance framework and monitoring the compliance risks for the Group; communicating new regulatory requirements to affected units; delivering compliance advice for the implementation of relevant regulations; conducting regulatory compliance reviews on a risk-based approach; and regularly reporting compliance matters to the Group's management committees. Any significant compliance issues, including those related to anti-money laundering and counter-terrorist financing, are also reported to the Risk Committee and the Board of Directors via the Operational Risk Management Committee. Through the support of the Risk and Compliance function established in the Bank's business, functional, and operations units, which act as the first line of defence against regulatory non-compliance, a comprehensive and efficient compliance risk management framework is maintained within the Group.

In view of the increasing demand on banks to comply with new and tighter regulations, including those related to anti-money laundering and counter-terrorist financing; the Foreign Account Tax Compliance Act of the United States of America; new legislation in Hong Kong for implementing the new international standard on the automatic exchange of financial account information in tax matters; as well as requirements for cross-border business, personal data protection, insurance and investment products sales practices; BEA expects compliance requirements to remain unavoidably high in the coming years.

By order of the Board

**David LI Kwok-po**  
*Chairman & Chief Executive*

Hong Kong, 17<sup>th</sup> February, 2017

*As at the date of this announcement, the Board of Directors of the Bank comprises Dr. the Hon. Sir David LI Kwok-po<sup>#</sup> (Chairman & Chief Executive), Professor Arthur LI Kwok-cheung\* (Deputy Chairman), Dr. Allan WONG Chi-yun\*\* (Deputy Chairman), Mr. Aubrey LI Kwok-sing\*, Mr. Winston LO Yau-lai\*\*, Mr. Richard LI Tzar-kai\*\*, Mr. Stephen Charles LI Kwok-sze\*, Mr. William DOO Wai-hoi\*\*, Mr. KUOK Khoon-ean\*\*, Dr. Isidro FAINÉ CASAS\*, Dr. Peter LEE Ka-kit\*, Mr. Adrian David LI Man-kiu<sup>#</sup> (Deputy Chief Executive), Mr. Brian David LI Man-bun<sup>#</sup> (Deputy Chief Executive), Dr. Daryl NG Win-kong\*\*, Mr. Masayuki OKU\*, Dr. the Hon. Rita FAN HSU Lai-tai\*\* and Mr. Meocre LI Kwok-wing\*\*.*

<sup>#</sup> *Executive Director*

<sup>\*</sup> *Non-executive Director*

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

## GLOSSARY

### 詞彙

|                                                   |                                                                                                                                                                                                                                                 |
|---------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2017 AGM<br>「2017 股東周年常會」                         | an AGM of the Bank to be held in the Grand Ballroom, Four Seasons Hotel, 8 Finance Street, Hong Kong on Friday, 5th May, 2017 at 11:30 a.m. or any adjournment thereof<br>本行將於 2017 年 5 月 5 日星期五上午 11 時 30 分在香港中環金融街 8 號四季酒店大禮堂舉行的股東周年常會，或其任何續會 |
| AGM<br>「股東周年常會」                                   | an Annual General Meeting of the Bank<br>本行的股東周年常會                                                                                                                                                                                              |
| AUM<br>「管理資產」                                     | Assets under management<br>管理資產                                                                                                                                                                                                                 |
| Bank Group or BEA Group<br>or Group<br>「集團」或「本集團」 | The Bank and its subsidiaries<br>東亞銀行及其附屬公司                                                                                                                                                                                                     |
| Bank or BEA<br>「本行」或「東亞銀行」                        | The Bank of East Asia, Limited, a limited liability company incorporated in Hong Kong<br>東亞銀行有限公司，於香港註冊成立的有限公司                                                                                                                                  |
| Banking Ordinance<br>《銀行業條例》                      | Hong Kong Banking Ordinance (Chapter 155 of the Laws of Hong Kong)<br>香港《銀行業條例》（香港法例第 155 章）                                                                                                                                                    |
| BEA China<br>「東亞中國」                               | The Bank of East Asia (China) Limited, a wholly-owned subsidiary of the Bank<br>東亞銀行(中國)有限公司，本行的全資附屬公司                                                                                                                                          |
| BEA Macau<br>「澳門分行」                               | the Bank's branch operations in Macau<br>本行的澳門分行                                                                                                                                                                                                |
| BEA Taiwan<br>「台灣分行」                              | the Bank's branch operations in Taiwan<br>本行的台灣分行                                                                                                                                                                                               |
| BEA Union Investment<br>「東亞聯豐投資」                  | BEA Union Investment Management Limited, a non-wholly- owned subsidiary of the Bank<br>東亞聯豐投資管理有限公司，本行的非全資附屬公司                                                                                                                                  |
| Board<br>「董事會」                                    | Board of Directors of the Bank<br>本行的董事會                                                                                                                                                                                                        |
| Capital Rules<br>「《資本規則》」                         | Banking (Capital) Rules issued by the HKMA<br>金管局頒布的《銀行業(資本規則)》                                                                                                                                                                                 |
| CG Code<br>「《企業管治守則》」                             | Corporate Governance Code and Corporate Governance Report, Appendix 14 of the Listing Rules<br>《上市規則》附錄 14 內所載的《企業管治守則》及《企業管治報告》                                                                                                                |
| CG-1<br>「CG-1」                                    | Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorized Institutions, issued by the HKMA<br>金管局頒布之監管政策手冊 CG-1 內有關《本地註冊認可機構的企業管治》                                                                              |

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| CG-5<br>「CG-5」                                       | Supervisory Policy Manual CG-5 on Guideline on a Sound Remuneration System, issued by the HKMA<br>金管局頒布之監管政策手冊 CG-5 內有關《穩健的薪酬制度指引》                                               |
| CHF<br>「瑞士法郎」                                        | Swiss franc<br>瑞士法定貨幣                                                                                                                                                            |
| China, Mainland, Mainland China, or PRC<br>「中國」或「內地」 | People's Republic of China<br>中華人民共和國                                                                                                                                            |
| CNY or RMB<br>「人民幣」                                  | Chinese yuan or Renminbi, the lawful currency of the PRC<br>中國法定貨幣                                                                                                               |
| Companies Ordinance<br>「《公司條例》」                      | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)<br>《公司條例》（香港法例第 622 章）                                                                                            |
| Director(s)<br>「董事」                                  | includes any person who occupies the position of a director, by whatever name called, of the Bank or otherwise as the context may require<br>包括任何任職本行董事職位的人士（不論其職銜如何），或文義另有所指的人士 |
| DIS<br>「預設投資策略」                                      | Default Investment Strategy<br>預設投資策略                                                                                                                                            |
| ERM<br>「企業風險管理」                                      | Enterprise risk management<br>企業風險管理                                                                                                                                             |
| EUR<br>「歐羅」                                          | Euro<br>歐羅區法定貨幣                                                                                                                                                                  |
| FX<br>「外匯」                                           | Foreign Exchange<br>外匯                                                                                                                                                           |
| GBP<br>「英鎊」                                          | Pound sterling, the lawful currency of the UK<br>英國法定貨幣                                                                                                                          |
| GDP<br>「本地生產總值」                                      | Gross domestic product<br>本地生產總值                                                                                                                                                 |
| HK\$ or HKD<br>「港幣」                                  | Hong Kong dollar, the lawful currency of Hong Kong<br>香港法定貨幣                                                                                                                     |
| HKMA<br>「金管局」                                        | Hong Kong Monetary Authority<br>香港金融管理局                                                                                                                                          |
| Hong Kong or HK<br>「香港」                              | Hong Kong Special Administrative Region of PRC<br>中華人民共和國香港特別行政區                                                                                                                 |
| JPY<br>「日圓」                                          | Japanese yen<br>日本法定貨幣                                                                                                                                                           |

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|------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Listing Rules<br>「《上市規則》」                | the Rules Governing the Listing of Securities on the Stock Exchange (as amended, modified or otherwise supplemented from time to time)<br>聯交所《證券上市規則》，經不時修訂、修改或以其他方式補充 |
| Management<br>「管理層」                      | the Chief Executive, Deputy Chief Executives and Division Heads of the Bank<br>本行的行政總裁、副行政總裁及處級主管                                                                      |
| MPF<br>「強積金」                             | Mandatory Provident Fund<br>強制性公積金                                                                                                                                     |
| MYR<br>「馬幣」                              | Malaysian Ringgit, the lawful currency of Malaysia<br>馬來西亞法定貨幣                                                                                                         |
| Senior Management<br>「高層管理人員」            | the Deputy Chief Executives of the Bank<br>本行的副行政總裁                                                                                                                    |
| SGD<br>「新加坡元」                            | Singapore dollar, the lawful currency of Singapore<br>新加坡法定貨幣                                                                                                          |
| SME<br>「中小企」                             | Small and medium-sized enterprises<br>中小型企業                                                                                                                            |
| Stock Exchange<br>「聯交所」                  | The Stock Exchange of Hong Kong Limited<br>香港聯合交易所有限公司                                                                                                                 |
| Tricor or Tricor Holdings<br>「卓佳」或「卓佳集團」 | Tricor Holdings Limited, a non-wholly-owned subsidiary of the Bank<br>卓佳集團有限公司，本行的非全資附屬公司                                                                              |
| UK<br>「英國」                               | United Kingdom<br>英國                                                                                                                                                   |
| US<br>「美國」                               | United States of America<br>美利堅合眾國                                                                                                                                     |
| US\$ or USD<br>「美元」                      | United States dollar, the lawful currency of the US<br>美國法定貨幣                                                                                                          |