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## The Bank of East Asia, Limited

東亞銀行有限公司

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

### ANNOUNCEMENT OF 2016 INTERIM RESULTS

#### INTERIM RESULTS

The Board of Directors of the Bank is pleased to announce the unaudited results (Note 1(a)) of the Group for the six months ended 30<sup>th</sup> June, 2016.

#### Consolidated Income Statement

|                                                                                          | Notes | 6 months<br>ended<br>30/6/2016<br>HK\$ Mn | 6 months<br>ended 30/6/2015<br>Restated<br>HK\$ Mn |
|------------------------------------------------------------------------------------------|-------|-------------------------------------------|----------------------------------------------------|
| <b>CONTINUING OPERATIONS</b>                                                             |       |                                           |                                                    |
| Interest income                                                                          | 3     | 10,361                                    | 12,328                                             |
| Interest expense                                                                         | 4     | (4,878)                                   | (6,145)                                            |
| Net interest income                                                                      |       | 5,483                                     | 6,183                                              |
| Fee and commission income                                                                | 5     | 1,678                                     | 2,056                                              |
| Fee and commission expense                                                               |       | (425)                                     | (467)                                              |
| Net fee and commission income                                                            |       | 1,253                                     | 1,589                                              |
| Net trading losses                                                                       | 6     | (32)                                      | (34)                                               |
| Net result from financial instruments designated at fair value<br>through profit or loss | 7     | (2)                                       | (24)                                               |
| Net hedging loss                                                                         | 8     | (4)                                       | (23)                                               |
| Net insurance revenue                                                                    | 9     | 228                                       | 203                                                |
| Other operating income                                                                   | 10    | 204                                       | 207                                                |
| Non-interest income                                                                      |       | 1,647                                     | 1,918                                              |
| Operating income                                                                         |       | 7,130                                     | 8,101                                              |
| Operating expenses                                                                       | 11    | (4,239)                                   | (4,216)                                            |
| Operating profit before impairment losses                                                |       | 2,891                                     | 3,885                                              |
| Impairment losses on loans and advances                                                  |       | (1,241)                                   | (776)                                              |
| Impairment losses on available-for-sale financial assets                                 |       | -                                         | (1)                                                |
| Impairment losses                                                                        |       | (1,241)                                   | (777)                                              |
| Operating profit after impairment losses                                                 |       | 1,650                                     | 3,108                                              |
| Net profit on sale of held-to-maturity investments                                       |       | 6                                         | 3                                                  |
| Net profit on sale of available-for-sale financial assets                                | 12    | 40                                        | 54                                                 |
| Net loss on sale of loans and receivables                                                |       | -                                         | (2)                                                |
| Net profit on disposal of assets held for sale                                           |       | 13                                        | -                                                  |
| Net gain on disposal of fixed assets                                                     | 13    | 770                                       | 112                                                |
| Valuation gains on investment properties                                                 | 22    | 45                                        | 340                                                |
| Share of profits less losses of associates                                               |       | 192                                       | 253                                                |
| Profit for the period before taxation                                                    |       | 2,716                                     | 3,868                                              |
| Income tax                                                                               | 14    |                                           |                                                    |
| Current tax                                                                              |       |                                           |                                                    |
| - Hong Kong                                                                              |       | (281)                                     | (407)                                              |
| - Outside Hong Kong                                                                      |       | (674)                                     | (363)                                              |
| Deferred tax                                                                             |       | 228                                       | 162                                                |
| Profit for the period from continuing operations                                         |       | 1,989                                     | 3,260                                              |
| <b>DISCONTINUED OPERATIONS</b>                                                           |       |                                           |                                                    |
| Profit from discontinued operations                                                      | 38    | 159                                       | 155                                                |
| Profit for the period                                                                    |       | 2,148                                     | 3,415                                              |

## Consolidated Income Statement

|                                     |       | 6 months<br>ended<br>30/6/2016 | 6 months<br>ended<br>30/6/2015<br>Restated |
|-------------------------------------|-------|--------------------------------|--------------------------------------------|
|                                     | Notes | HK\$ Mn                        | HK\$ Mn                                    |
| Attributable to:                    |       |                                |                                            |
| Owners of the parent                |       |                                |                                            |
| - from continuing operations        |       | 1,981                          | 3,242                                      |
| - from discontinued operations      |       | 114                            | 112                                        |
|                                     |       | 2,095                          | 3,354                                      |
| Non-controlling interests           |       | 53                             | 61                                         |
| Profit for the period               |       | 2,148                          | 3,415                                      |
| Profit for the Bank                 |       | 1,682                          | 2,193                                      |
| Per share                           |       |                                |                                            |
| Basic earnings                      | 1(b)  |                                |                                            |
| - profit for the period             |       | HK\$0.69                       | HK\$1.28                                   |
| - profit from continuing operations |       | HK\$0.65                       | HK\$1.24                                   |
| Diluted earnings                    | 1(b)  |                                |                                            |
| - profit for the period             |       | HK\$0.69                       | HK\$1.28                                   |
| - profit from continuing operations |       | HK\$0.65                       | HK\$1.24                                   |

## Consolidated Statement of Comprehensive Income

|                                                                  |       | 6 months<br>ended<br>30/6/2016 | 6 months<br>ended<br>30/6/2015 |
|------------------------------------------------------------------|-------|--------------------------------|--------------------------------|
|                                                                  | Notes | HK\$ Mn                        | HK\$ Mn                        |
| Net profit                                                       |       | 2,148                          | 3,415                          |
| Other comprehensive income for the period:                       |       |                                |                                |
| Items that will not be reclassified to income statement:         |       |                                |                                |
| Premises:                                                        |       |                                |                                |
| - unrealised surplus on revaluation of premises                  |       | 24                             | -                              |
| Items that may be reclassified subsequently to income statement: |       |                                |                                |
| Premises:                                                        |       |                                |                                |
| - deferred taxes                                                 |       | -                              | (14)                           |
| Available-for-sale investment revaluation reserve:               |       |                                |                                |
| - fair value changes recognised to equity                        |       | 47                             | 338                            |
| - fair value changes reclassified from/(to) income statement:    |       |                                |                                |
| - on impairment and amortisation                                 |       | 18                             | 10                             |
| - on disposal                                                    | 12    | (25)                           | (102)                          |
| - deferred taxes                                                 | 28    | 33                             | (23)                           |
| Share of changes in equity of associates                         |       | 113                            | 24                             |
| Exchange differences on translation of:                          |       |                                |                                |
| - accounts of overseas branches, subsidiaries and associates     |       | (375)                          | (349)                          |
| Other comprehensive income                                       |       | (165)                          | (116)                          |
| Total comprehensive income                                       |       | 1,983                          | 3,299                          |
| Total comprehensive income attributable to:                      |       |                                |                                |
| Owners of the parent                                             |       | 1,921                          | 3,246                          |
| Non-controlling interests                                        |       | 62                             | 53                             |
|                                                                  |       | 1,983                          | 3,299                          |

## Consolidated Statement of Financial Position

|                                                                  | Notes | 30/6/2016<br>HK\$ Mn | 31/12/2015<br>HK\$ Mn |
|------------------------------------------------------------------|-------|----------------------|-----------------------|
| <b>ASSETS</b>                                                    |       |                      |                       |
| Cash and balances with banks and other financial institutions    |       | 48,830               | 69,122                |
| Placements with banks and other financial institutions           | 15    | 58,500               | 80,828                |
| Trade bills                                                      | 16    | 14,615               | 19,532                |
| Trading assets                                                   | 17    | 6,560                | 5,335                 |
| Financial assets designated at fair value through profit or loss | 18    | 3,163                | 4,336                 |
| Positive fair value of derivatives                               | 33(a) | 5,775                | 6,205                 |
| Advances to customers and other accounts                         | 19    | 481,445              | 473,088               |
| Available-for-sale financial assets                              | 20    | 110,947              | 93,595                |
| Held-to-maturity investments                                     | 21    | 5,323                | 6,199                 |
| Investments in associates                                        |       | 6,193                | 5,763                 |
| Fixed assets                                                     | 22    | 12,157               | 13,297                |
| - Investment properties                                          |       | 4,350                | 4,891                 |
| - Other property and equipment                                   |       | 7,807                | 8,406                 |
| Goodwill and intangible assets                                   |       | 2,658                | 3,883                 |
| Deferred tax assets                                              | 28    | 405                  | 181                   |
| Total Assets                                                     |       | <u>756,571</u>       | <u>781,364</u>        |
| <b>EQUITY AND LIABILITIES</b>                                    |       |                      |                       |
| Deposits and balances of banks and other financial institutions  |       | 29,979               | 32,126                |
| Deposits from customers                                          |       | 528,149              | 540,743               |
| - Demand deposits and current accounts                           |       | 67,840               | 73,471                |
| - Savings deposits                                               |       | 117,904              | 113,332               |
| - Time, call and notice deposits                                 |       | 342,405              | 353,940               |
| Trading liabilities                                              | 23    | 55                   | 889                   |
| Negative fair value of derivatives                               | 33(a) | 6,113                | 6,909                 |
| Certificates of deposit issued                                   |       | 31,750               | 37,277                |
| - Designated at fair value through profit or loss                |       | 19,206               | 16,457                |
| - At amortised cost                                              |       | 12,544               | 20,820                |
| Current taxation                                                 |       | 1,816                | 1,325                 |
| Debt securities issued                                           |       | 7,993                | 13,597                |
| - Designated at fair value through profit or loss                |       | 425                  | 2,539                 |
| - At amortised cost                                              |       | 7,568                | 11,058                |
| Deferred tax liabilities                                         | 28    | 506                  | 534                   |
| Other accounts and provisions                                    | 24    | 45,699               | 45,327                |
| Loan capital - at amortised cost                                 | 25    | 17,476               | 16,996                |
| Total Liabilities                                                |       | <u>669,536</u>       | <u>695,723</u>        |
| Share capital                                                    | 1(d)  | 34,875               | 33,815                |
| Reserves                                                         | 29    | 43,965               | 43,598                |
| Total equity attributable to owners of the parent                |       | 78,840               | 77,413                |
| Additional equity instruments                                    |       | 5,016                | 5,016                 |
| Non-controlling interests                                        |       | 3,179                | 3,212                 |
| Total Equity                                                     |       | <u>87,035</u>        | <u>85,641</u>         |
| Total Equity and Liabilities                                     |       | <u>756,571</u>       | <u>781,364</u>        |

## 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>2</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 period                                        | -             | -                                            | -                            | -                              | -                                    | -               | -               | -                           | 2,095            | 2,095   | -                             | 53                        | 2,148        |
| Other comprehensive income                                   | -             | -                                            | (384)                        | 73                             | 24                                   | -               | -               | 113                         | -                | (174)   | -                             | 9                         | (165)        |
| Total comprehensive income                                   | -             | -                                            | (384)                        | 73                             | 24                                   | -               | -               | 113                         | 2,095            | 1,921   | -                             | 62                        | 1,983        |
| Shares issued in lieu of dividend (Note 1(d))                | 1,060         | -                                            | -                            | -                              | -                                    | -               | -               | -                           | -                | 1,060   | -                             | -                         | 1,060        |
| Equity settled share-based transaction                       | -             | 16                                           | -                            | -                              | -                                    | -               | -               | -                           | -                | 16      | -                             | -                         | 16           |
| Transfer                                                     | -             | -                                            | -                            | -                              | (62)                                 | -               | 62              | 127                         | (127)            | -       | -                             | -                         | -            |
| Dividends declared or approved during the period (Note 1(c)) | -             | -                                            | -                            | -                              | -                                    | -               | -               | -                           | (1,564)          | (1,564) | -                             | (48)                      | (1,612)      |
| Buy back of Hybrid Tier 1 capital instruments <sup>1</sup>   | -             | -                                            | -                            | -                              | -                                    | -               | -               | -                           | (6)              | (6)     | -                             | (47)                      | (53)         |
| At 30 <sup>th</sup> June, 2016                               | 34,875        | 106                                          | (546)                        | 1,456                          | 1,601                                | 230             | 14,015          | 4,906                       | 22,197           | 78,840  | 5,016                         | 3,179                     | 87,035       |
| 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 period                                        | -             | -                                            | -                            | -                              | -                                    | -               | -               | -                           | 3,354            | 3,354   | -                             | 61                        | 3,415        |
| Other comprehensive income                                   | -             | -                                            | (341)                        | 223                            | (14)                                 | -               | -               | 24                          | -                | (108)   | -                             | (8)                       | (116)        |
| Total comprehensive income                                   | -             | -                                            | (341)                        | 223                            | (14)                                 | -               | -               | 24                          | 3,354            | 3,246   | -                             | 53                        | 3,299        |
| Shares issued in lieu of dividend                            | 1,216         | -                                            | -                            | -                              | -                                    | -               | -               | -                           | -                | 1,216   | -                             | -                         | 1,216        |
| Subscription of new shares                                   | 6,576         | -                                            | -                            | -                              | -                                    | -               | -               | -                           | -                | 6,576   | -                             | -                         | 6,576        |
| Shares issued under Staff Share Option Schemes               | 131           | -                                            | -                            | -                              | -                                    | -               | -               | -                           | -                | 131     | -                             | -                         | 131          |
| Equity settled share-based transaction                       | -             | 12                                           | -                            | -                              | -                                    | -               | -               | -                           | -                | 12      | -                             | -                         | 12           |
| Transfer                                                     | 13            | (13)                                         | -                            | -                              | -                                    | 2               | -               | 114                         | (116)            | -       | -                             | -                         | -            |
| Dividends declared or approved during the period (Note 1(c)) | -             | -                                            | -                            | -                              | -                                    | -               | -               | -                           | (1,762)          | (1,762) | -                             | (47)                      | (1,809)      |
| At 30 <sup>th</sup> June, 2015                               | 33,153        | 83                                           | 1,629                        | 1,883                          | 1,628                                | 230             | 13,930          | 4,438                       | 21,325           | 78,299  | -                             | 4,570                     | 82,869       |

1. During the period, the Bank bought back HK\$47 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.

2. Other reserves include statutory reserve and other reserves.

## Condensed Consolidated Cash Flow Statement

|                                                              |       | 6 months<br>ended<br>30/6/2016 | 6 months<br>ended<br>30/6/2015<br>Restated |
|--------------------------------------------------------------|-------|--------------------------------|--------------------------------------------|
|                                                              | Notes | HK\$ Mn                        | HK\$ Mn                                    |
| NET CASH (OUTFLOW)/INFLOW FROM OPERATIONS                    |       | (10,130)                       | 16,956                                     |
| Income tax paid                                              |       |                                |                                            |
| Hong Kong profits tax paid                                   |       | (6)                            | (3)                                        |
| Outside Hong Kong profits tax paid                           |       | (436)                          | (283)                                      |
| NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES       |       | (10,572)                       | 16,670                                     |
| INVESTING ACTIVITIES                                         |       |                                |                                            |
| Dividends received from associates                           |       | 51                             | 9                                          |
| Dividends received from available-for-sale equity securities |       | 15                             | 13                                         |
| Purchase of equity securities                                |       | (1,396)                        | (1,523)                                    |
| Proceeds from sale of equity securities                      |       | 1,097                          | 1,123                                      |
| Purchase of fixed assets                                     |       | (188)                          | (143)                                      |
| Proceeds from disposal of other property and equipment       |       | 958                            | 156                                        |
| Proceeds from disposal of investment properties              |       | 651                            | -                                          |
| Proceeds from disposal of assets held for sale               |       | 646                            | -                                          |
| Disposal/(Purchase) of shareholding in associates            |       | 2                              | (61)                                       |
| NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES       |       | 1,836                          | (426)                                      |
| FINANCING ACTIVITIES                                         |       |                                |                                            |
| Ordinary dividends paid                                      |       | (308)                          | (428)                                      |
| Distribution to Hybrid/Additional Tier 1 issue holders       | 1(c)  | (244)                          | (165)                                      |
| Issue of ordinary share capital                              |       | -                              | 131                                        |
| Subscription of new shares                                   | 1(d)  | -                              | 6,576                                      |
| Issue of certificates of deposit                             |       | 22,921                         | 43,695                                     |
| Issue of debt securities                                     |       | 687                            | 9,167                                      |
| Buy back of Hybrid Tier 1 issued                             |       | (53)                           | -                                          |
| Redemption of certificates of deposit issued                 |       | (27,753)                       | (41,837)                                   |
| Redemption of debt securities issued                         |       | (6,542)                        | (14,814)                                   |
| Interest paid on loan capital                                |       | (452)                          | (451)                                      |
| Interest paid on certificates of deposit issued              |       | (303)                          | (466)                                      |
| Interest paid on debt securities issued                      |       | (127)                          | (288)                                      |
| NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES       |       | (12,174)                       | 1,120                                      |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS         |       | (20,910)                       | 17,364                                     |
| CASH AND CASH EQUIVALENTS AT 1 <sup>ST</sup> JANUARY         |       | 110,966                        | 71,986                                     |
| Effect of foreign exchange rate changes                      |       | (1,494)                        | (62)                                       |
| CASH AND CASH EQUIVALENTS AT 30 <sup>TH</sup> JUNE           | 30    | 88,562                         | 89,288                                     |
| Cash flows from operating activities included:               |       |                                |                                            |
| Interest received                                            |       | 10,875                         | 12,379                                     |
| Interest paid                                                |       | 5,693                          | 6,442                                      |
| Dividend received                                            |       | 38                             | 38                                         |

Notes:

1. (a) The information in this announcement is not audited or reviewed by the external auditors but is extracted from the interim report prepared under HKAS 34 “Interim Financial Reporting” issued by the HKICPA. Hence this announcement does not constitute the Group’s statutory accounts. The interim report, which has been reviewed by the Bank’s Audit Committee, is prepared on a basis consistent with the accounting policies and methods of computation adopted in the 2015 audited accounts, except for the accounting policy changes required under new HKFRSs and amendments that are first effective for the current accounting period as described in note 2 below, or otherwise explicitly stated, and has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA, whose unmodified review report is included in the interim report which will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Bank, together with the disclosures required by the Banking (Disclosure) Rules issued by the HKMA, by 30<sup>th</sup> September, 2016 as required by the Listing Rules and the Banking (Disclosure) Rules. The statutory accounts for the year ended 31<sup>st</sup> December, 2015 are available from the Bank’s registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 15<sup>th</sup> February, 2016.

The financial information relating to the financial year ended 31<sup>st</sup> December, 2015 that is included in the interim financial report as comparative information does not constitute the Bank’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31<sup>st</sup> December 2015 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

- (b) (i) The calculation of basic earnings per share is based on the consolidated profit for the period and profit from continuing operations attributable to owners of the parent of HK\$1,845 million and HK\$1,731 million (six months ended 30<sup>th</sup> June, 2015 : HK\$3,189 million and HK\$3,077 million) respectively after the distribution of HK\$244 million (six months ended 30<sup>th</sup> June, 2015: HK\$165 million) to Hybrid/Additional Tier 1 issue holders and deduction of HK\$6 million (30<sup>th</sup> June, 2015: Nil) premium paid to partial bought back of Hybrid Tier 1 capital instruments, and on the weighted average of 2,662 million (six months ended 30<sup>th</sup> June, 2015: 2,489 million) ordinary shares outstanding during the six months ended 30<sup>th</sup> June, 2016.
- (ii) The calculation of diluted earnings per share is based on the consolidated profit for the period and profit from continuing operations attributable to owners of the parent of HK\$1,845 million and HK\$1,731 million (six months ended 30<sup>th</sup> June, 2015: HK\$3,189 million and HK\$3,077 million) respectively after the distribution of HK\$244 million (six months ended 30<sup>th</sup> June, 2015: HK\$165 million) to Hybrid/Additional Tier 1 issue holders and deduction of HK\$6 million (30<sup>th</sup> June, 2015: Nil) premium paid to partial bought back of Hybrid Tier 1 capital instruments, and on 2,662 million (six months ended 30<sup>th</sup> June, 2015: 2,490 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30<sup>th</sup> June, 2016, adjusted for the effects of all dilutive potential shares.

(c) Dividends

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

|                                                                                                                                                                                             | 6 months<br>ended<br>30/6/2016<br>HK\$ Mn | 6 months<br>ended<br>30/6/2015<br>HK\$ Mn |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Interim dividend declared after the interim period of HK\$0.28 per share on 2,683 million shares (six months ended 30 <sup>th</sup> June, 2015: HK\$0.38 per share on 2,617 million shares) | 751                                       | 994                                       |

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

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

|                                                                                                                                                                                                                                                                                    | 6 months<br>ended<br>30/6/2016<br>HK\$ Mn | 6 months<br>ended<br>30/6/2015<br>HK\$ Mn |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Second interim dividend paid in respect of the previous financial year on shares issued under the share option schemes subsequent to the end of the reporting period and before the close of the Register of Members of the Bank, of HK\$0.50 per share (2015: HK\$0.68 per share) | -                                         | 1                                         |
| Second interim dividend of HK\$0.50 per share on 2,641 million shares (2015: HK\$0.68 per share on 2,347 million shares)                                                                                                                                                           | 1,320                                     | 1,596                                     |
|                                                                                                                                                                                                                                                                                    | <u>1,320</u>                              | <u>1,597</u>                              |

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

|                                                                | 6 months<br>ended<br>30/6/2016<br>HK\$ Mn | 6 months<br>ended<br>30/6/2015<br>HK\$ Mn |
|----------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Interest paid/payable on the Hybrid Tier 1 capital instruments | 105                                       | 165                                       |
| Amount paid on the Additional Tier 1 capital instruments       | 139                                       | -                                         |
|                                                                | <u>244</u>                                | <u>165</u>                                |

(d) Share Capital

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

|                                                                                         | At 30 <sup>th</sup> June, 2016 |               | At 31 <sup>st</sup> December, 2015 |               |
|-----------------------------------------------------------------------------------------|--------------------------------|---------------|------------------------------------|---------------|
|                                                                                         | No. of<br>shares               |               | No. of<br>shares                   |               |
|                                                                                         | Mn                             | HK\$ Mn       | Mn                                 | HK\$ Mn       |
| Ordinary shares, issued and fully paid:                                                 |                                |               |                                    |               |
| At 1st January                                                                          | 2,641                          | 33,815        | 2,347                              | 25,217        |
| Subscription of new shares                                                              | -                              | -             | 223                                | 6,576         |
| Shares issued under Staff Share<br>Option Schemes                                       | -                              | -             | 5                                  | 150           |
| Transfer of the fair value of options<br>from capital reserve – share options<br>issued | -                              | -             | -                                  | 16            |
| Share issued in lieu of dividend                                                        | 42                             | 1,060         | 66                                 | 1,856         |
| At 30 <sup>th</sup> June/31 <sup>st</sup> December                                      | <u>2,683</u>                   | <u>34,875</u> | <u>2,641</u>                       | <u>33,815</u> |

## 2. Changes in Accounting Policies

The HKICPA has issued a numbers of amendments to HKFRSs that are first effective for the current accounting period of the Group.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 3. Interest Income

|                                                                           | 6 months<br>ended<br>30/6/2016 | 6 months<br>ended<br>30/6/2015<br>Restated |
|---------------------------------------------------------------------------|--------------------------------|--------------------------------------------|
|                                                                           | HK\$ Mn                        | HK\$ Mn                                    |
| CONTINUING OPERATIONS                                                     |                                |                                            |
| Securities classified as held-to-maturity or available-for-sale           | 1,269                          | 1,249                                      |
| Trading assets                                                            | 73                             | 88                                         |
| Financial assets designated at fair value through profit or loss          | 68                             | 74                                         |
| Loans, deposits with banks and financial institutions, and trade<br>bills | 8,951                          | 10,917                                     |
|                                                                           | <u>10,361</u>                  | <u>12,328</u>                              |

Included above is interest income accrued on impaired financial assets of HK\$190 million (six months ended 30<sup>th</sup> June, 2015: HK\$87 million).

Included within interest income is HK\$10,373 million (six months ended 30th June, 2015: HK\$12,249 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

|                                                                                                                                             | 6 months<br>ended<br>30/6/2016<br>HK\$ Mn | 6 months<br>ended<br>30/6/2015<br>HK\$ Mn |
|---------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| CONTINUING OPERATIONS                                                                                                                       |                                           |                                           |
| Customer deposits, deposits of banks and other financial institutions and certificates of deposit issued which are stated at amortised cost | 4,313                                     | 5,525                                     |
| Debt securities issued                                                                                                                      |                                           |                                           |
| - at amortised cost                                                                                                                         | 86                                        | 146                                       |
| - designated at fair value through profit or loss                                                                                           | 114                                       | 147                                       |
| Subordinated notes carried at amortised cost                                                                                                | 364                                       | 317                                       |
| Other borrowings                                                                                                                            | 1                                         | 10                                        |
|                                                                                                                                             | <u>4,878</u>                              | <u>6,145</u>                              |

Included within interest expense is HK\$4,664 million (six months ended 30<sup>th</sup> June, 2015: HK\$6,131 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:

|                                      | 6 months<br>ended<br>30/6/2016<br>HK\$ Mn | 6 months<br>ended<br>30/6/2015<br>Restated<br>HK\$ Mn |
|--------------------------------------|-------------------------------------------|-------------------------------------------------------|
| CONTINUING OPERATIONS                |                                           |                                                       |
| Credit cards                         | 484                                       | 460                                                   |
| Loans, overdrafts and guarantees     | 370                                       | 479                                                   |
| Trade finance                        | 180                                       | 270                                                   |
| Other retail banking services        | 149                                       | 212                                                   |
| Securities and brokerage             | 111                                       | 274                                                   |
| Trust and other fiduciary activities | 108                                       | 87                                                    |
| Others                               | 276                                       | 274                                                   |
| Total fee and commission income      | <u>1,678</u>                              | <u>2,056</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

|              |       |       |
|--------------|-------|-------|
|              | 1,262 | 1,603 |
| Fee income   | 1,678 | 2,056 |
| Fee expenses | (416) | (453) |

## 6. Net Trading Losses

|                                                         | 6 months<br>ended<br>30/6/2016 | 6 months<br>ended<br>30/6/2015<br>Restated |
|---------------------------------------------------------|--------------------------------|--------------------------------------------|
|                                                         | HK\$ Mn                        | HK\$ Mn                                    |
| CONTINUING OPERATIONS                                   |                                |                                            |
| Loss on dealing in foreign currencies and funding swaps | (517)                          | (599)                                      |
| (Loss)/Profit on trading securities                     | (91)                           | 277                                        |
| Net gain on derivatives                                 | 554                            | 263                                        |
| Dividend income from listed trading securities          | 22                             | 25                                         |
|                                                         | <u>(32)</u>                    | <u>(34)</u>                                |

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

|                                             | 6 months<br>ended<br>30/6/2016 | 6 months<br>ended<br>30/6/2015 |
|---------------------------------------------|--------------------------------|--------------------------------|
|                                             | HK\$ Mn                        | HK\$ Mn                        |
| CONTINUING OPERATIONS                       |                                |                                |
| Revaluation loss on debts issued            | (2)                            | (40)                           |
| Profit on sale of debts issued              | -                              | 3                              |
| Revaluation (loss)/gain on financial assets | (3)                            | 15                             |
| Profit/(Loss) on sale of financial assets   | 3                              | (2)                            |
|                                             | <u>(2)</u>                     | <u>(24)</u>                    |

## 8. Net Hedging Loss

|                                                                     | 6 months<br>ended<br>30/6/2016 | 6 months<br>ended<br>30/6/2015 |
|---------------------------------------------------------------------|--------------------------------|--------------------------------|
|                                                                     | HK\$ Mn                        | HK\$ Mn                        |
| CONTINUING OPERATIONS                                               |                                |                                |
| Fair value hedges                                                   |                                |                                |
| - Net profit/(loss) on hedged items attributable to the hedged risk | 454                            | (21)                           |
| - Net loss on hedging instruments                                   | (458)                          | (2)                            |
|                                                                     | <u>(4)</u>                     | <u>(23)</u>                    |

There was insignificant ineffectiveness recognised in the Group's income statement arising from cash flow hedge for the six months ended 30<sup>th</sup> June, 2016 and 30<sup>th</sup> June, 2015.

## 9. Net Insurance Revenue

|                                                                                                 | 6 months<br>ended<br>30/6/2016<br>HK\$ Mn | 6 months<br>ended<br>30/6/2015<br>HK\$ Mn |
|-------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| CONTINUING OPERATIONS                                                                           |                                           |                                           |
| (a) Net insurance revenue                                                                       |                                           |                                           |
| Net interest income                                                                             | 189                                       | 171                                       |
| Net trading loss                                                                                | (3)                                       | (6)                                       |
| Net (loss)/profit from financial instruments designated<br>at fair value through profit or loss | (8)                                       | 28                                        |
| Net hedging loss                                                                                | (4)                                       | (2)                                       |
| Net insurance premium and other income                                                          | (b) 2,341                                 | 1,801                                     |
| Other operating income                                                                          | -                                         | 3                                         |
|                                                                                                 | <u>2,515</u>                              | <u>1,995</u>                              |
| Net insurance claims and expenses                                                               | (c) (2,312)                               | (1,904)                                   |
|                                                                                                 | <u>203</u>                                | <u>91</u>                                 |
| Operating expenses                                                                              | (1)                                       | (1)                                       |
| Impairment loss on available-for-sale financial assets                                          | (19)                                      | (9)                                       |
| Net profit on sale of available-for-sale financial assets                                       | 45                                        | 122                                       |
|                                                                                                 | <u>228</u>                                | <u>203</u>                                |
| <br>(b) Net insurance premium and other income                                                  |                                           |                                           |
| Gross insurance premium income                                                                  | 2,374                                     | 1,943                                     |
| Reinsurer's share of gross insurance premium income                                             | (33)                                      | (142)                                     |
|                                                                                                 | <u>2,341</u>                              | <u>1,801</u>                              |
| <br>(c) Net insurance claims and expenses                                                       |                                           |                                           |
| Claims, benefits and surrenders paid                                                            | 1,362                                     | 822                                       |
| Movement in provisions                                                                          | 895                                       | 1,181                                     |
|                                                                                                 | <u>2,257</u>                              | <u>2,003</u>                              |
| Reinsurers' share of claim, benefits and surrenders paid                                        | (33)                                      | (21)                                      |
| Reinsurers' share of movement in provisions                                                     | 10                                        | (139)                                     |
|                                                                                                 | <u>(23)</u>                               | <u>(160)</u>                              |
|                                                                                                 | <u>2,234</u>                              | <u>1,843</u>                              |
| Net insurance commission expenses                                                               | 78                                        | 61                                        |
|                                                                                                 | <u>2,312</u>                              | <u>1,904</u>                              |

## 10. Other Operating Income

|                                                          | 6 months<br>ended<br>30/6/2016<br>HK\$ Mn | 6 months<br>ended<br>30/6/2015<br>Restated<br>HK\$ Mn |
|----------------------------------------------------------|-------------------------------------------|-------------------------------------------------------|
| CONTINUING OPERATIONS                                    |                                           |                                                       |
| Dividend income from available-for-sale financial assets |                                           |                                                       |
| - listed                                                 | 8                                         | 5                                                     |
| - unlisted                                               | 7                                         | 8                                                     |
| Rental from safe deposit boxes                           | 44                                        | 43                                                    |
| Rental income on properties                              | 118                                       | 103                                                   |
| Others                                                   | 27                                        | 48                                                    |
|                                                          | <u>204</u>                                | <u>207</u>                                            |

## 11. Operating Expenses

|                                                                      | 6 months<br>ended<br>30/6/2016 | 6 months<br>ended<br>30/6/2015<br>Restated |
|----------------------------------------------------------------------|--------------------------------|--------------------------------------------|
|                                                                      | HK\$ Mn                        | HK\$ Mn                                    |
| CONTINUING OPERATIONS                                                |                                |                                            |
| Contributions to defined contribution plan                           |                                |                                            |
| - Hong Kong                                                          | 80                             | 73                                         |
| - Outside Hong Kong                                                  | 172                            | 161                                        |
| Equity-settled share-based payment expenses                          | 16                             | 12                                         |
| Salaries and other staff costs                                       | 2,128                          | 2,014                                      |
| Total staff costs                                                    | 2,396                          | 2,260                                      |
| Premises and equipment expenses excluding depreciation               |                                |                                            |
| - Rental of premises                                                 | 314                            | 303                                        |
| - Maintenance, repairs and others                                    | 279                            | 275                                        |
| Total premises and equipment expenses excluding depreciation         | 593                            | 578                                        |
| Depreciation on fixed assets                                         | 240                            | 252                                        |
| Amortisation of intangible assets                                    | 16                             | 16                                         |
| Other operating expenses                                             |                                |                                            |
| - Legal and professional fees                                        | 213                            | 190                                        |
| - Stamp duty, overseas and PRC business taxes, and value added taxes | 210                            | 337                                        |
| - Communications, stationery and printing                            | 141                            | 149                                        |
| - Advertising expenses                                               | 111                            | 118                                        |
| - Business promotions and business travel                            | 73                             | 77                                         |
| - Card related expenses                                              | 72                             | 63                                         |
| - Insurance expenses                                                 | 40                             | 32                                         |
| - Membership fees                                                    | 10                             | 8                                          |
| - Bank charges                                                       | 5                              | 4                                          |
| - Donations                                                          | 3                              | 3                                          |
| - Bank licence                                                       | 2                              | 2                                          |
| - Others                                                             | 114                            | 127                                        |
| Total other operating expenses                                       | 994                            | 1,110                                      |
| Total operating expenses                                             | 4,239                          | 4,216                                      |

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

|                                                | 6 months<br>ended<br>30/6/2016 | 6 months<br>ended<br>30/6/2015 |
|------------------------------------------------|--------------------------------|--------------------------------|
|                                                | HK\$ Mn                        | HK\$ Mn                        |
| CONTINUING OPERATIONS                          |                                |                                |
| Net revaluation gain transferred from reserves | 25                             | 102                            |
| Profit/(Loss) arising in the period            | 15                             | (48)                           |
|                                                | 40                             | 54                             |

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

|                                                                          | 6 months<br>ended<br>30/6/2016<br>HK\$ Mn | 6 months<br>ended<br>30/6/2015<br>HK\$ Mn |
|--------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| CONTINUING OPERATIONS                                                    |                                           |                                           |
| Net gain on disposal of investment properties                            | 146                                       | -                                         |
| Net gain on disposal of bank premises, furniture, fixtures and equipment | 624                                       | 112                                       |
|                                                                          | <u>770</u>                                | <u>112</u>                                |

### 14. Income Tax

Taxation in the consolidated income statement represents:

|                                                        | 6 months<br>ended<br>30/6/2016<br>HK\$ Mn | 6 months<br>ended<br>30/6/2015<br>Restated<br>HK\$ Mn |
|--------------------------------------------------------|-------------------------------------------|-------------------------------------------------------|
| CONTINUING OPERATIONS                                  |                                           |                                                       |
| Current tax – Hong Kong                                |                                           |                                                       |
| Tax for the year                                       | 264                                       | 389                                                   |
| Under-provision in respect of prior years              | 17                                        | 18                                                    |
|                                                        | <u>281</u>                                | <u>407</u>                                            |
| Current tax – outside Hong Kong                        |                                           |                                                       |
| Tax for the year*                                      | 709                                       | 394                                                   |
| Write back of over-provision in respect of prior years | (35)                                      | (31)                                                  |
|                                                        | <u>674</u>                                | <u>363</u>                                            |
| Deferred tax                                           |                                           |                                                       |
| Origination and reversal of temporary differences      | (228)                                     | (162)                                                 |
|                                                        | <u>727</u>                                | <u>608</u>                                            |

\* For the first half of 2016, certain properties in Mainland China was disposed of, which resulted in an impact of land value added tax and corporate income tax totalling HK\$396 million.

The provision for Hong Kong profits tax is calculated at 16.5% (six months ended 30<sup>th</sup> June, 2015: 16.5%) of the estimated assessable profits for the six months ended 30<sup>th</sup> June, 2016.

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

### 15. Placements with Banks and Other Financial Institutions

|                                                   | 30/6/2016<br>HK\$ Mn | 31/12/2015<br>HK\$ Mn |
|---------------------------------------------------|----------------------|-----------------------|
| Placements with banks and authorised institutions | 58,500               | 80,828                |
| Placements with central banks                     | -                    | -                     |
|                                                   | <u>58,500</u>        | <u>80,828</u>         |
| Maturing                                          |                      |                       |
| - within one month                                | 41,906               | 62,384                |
| - between one month and one year                  | 16,594               | 18,444                |
|                                                   | <u>58,500</u>        | <u>80,828</u>         |

## 16. Trade Bills

|                                        | 30/6/2016     | 31/12/2015    |
|----------------------------------------|---------------|---------------|
|                                        | HK\$ Mn       | HK\$ Mn       |
| Gross trade bills                      | 14,616        | 19,533        |
| Less: Individual impairment allowances | (1)           | (1)           |
|                                        | <u>14,615</u> | <u>19,532</u> |

## 17. Trading Assets

|                                                | 30/6/2016    | 31/12/2015   |
|------------------------------------------------|--------------|--------------|
|                                                | HK\$ Mn      | HK\$ Mn      |
| Treasury bills (including Exchange Fund Bills) | 265          | 1,178        |
| Certificates of deposit held                   | 2,555        | 1,192        |
| Debt securities                                | 2,669        | 1,620        |
| Equity securities                              | 1,071        | 1,345        |
|                                                | <u>6,560</u> | <u>5,335</u> |
| Issued by:                                     |              |              |
| Central governments and central banks          | 277          | 1,189        |
| Public sector entities                         | 8            | 8            |
| Banks and other financial institutions         | 4,935        | 2,768        |
| Corporate entities                             | 1,307        | 1,370        |
| Other entities                                 | 33           | -            |
|                                                | <u>6,560</u> | <u>5,335</u> |
| Analysed by place of listing:                  |              |              |
| Debt securities                                |              |              |
| Listed in Hong Kong                            | 12           | 11           |
| Listed outside Hong Kong                       | -            | 25           |
|                                                | <u>12</u>    | <u>36</u>    |
| Unlisted                                       | 5,477        | 3,954        |
|                                                | <u>5,489</u> | <u>3,990</u> |
| Equity securities                              |              |              |
| Listed in Hong Kong                            | 860          | 1,124        |
| Listed outside Hong Kong                       | 211          | 221          |
|                                                | <u>1,071</u> | <u>1,345</u> |
|                                                | <u>6,560</u> | <u>5,335</u> |

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

|                                        | 30/6/2016<br>HK\$ Mn | 31/12/2015<br>HK\$ Mn |
|----------------------------------------|----------------------|-----------------------|
| Certificates of deposit held           | -                    | 476                   |
| Debt securities                        | 2,880                | 3,410                 |
| Equity securities                      | 194                  | 326                   |
| Investment funds                       | 89                   | 124                   |
|                                        | <u>3,163</u>         | <u>4,336</u>          |
| Issued by:                             |                      |                       |
| Central governments and central banks  | 89                   | 90                    |
| Banks and other financial institutions | 1,530                | 2,012                 |
| Corporate entities                     | 1,455                | 2,110                 |
| Other entities                         | 89                   | 124                   |
|                                        | <u>3,163</u>         | <u>4,336</u>          |
| Analysed by place of listing:          |                      |                       |
| Debt securities                        |                      |                       |
| Listed in Hong Kong                    | 554                  | 797                   |
| Listed outside Hong Kong               | 1,012                | 1,589                 |
|                                        | <u>1,566</u>         | <u>2,386</u>          |
| Unlisted                               | 1,314                | 1,500                 |
|                                        | <u>2,880</u>         | <u>3,886</u>          |
| Equity securities                      |                      |                       |
| Listed in Hong Kong                    | 66                   | 116                   |
| Listed outside Hong Kong               | 128                  | 210                   |
|                                        | <u>194</u>           | <u>326</u>            |
| Investment funds                       |                      |                       |
| Listed in Hong Kong                    | 4                    | 20                    |
| Listed outside Hong Kong               | 8                    | 15                    |
|                                        | <u>12</u>            | <u>35</u>             |
| Unlisted                               | 77                   | 89                    |
|                                        | <u>89</u>            | <u>124</u>            |
|                                        | <u>3,163</u>         | <u>4,336</u>          |

## 19. Advances to Customers and Other Accounts

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

|                                                    | 30/6/2016<br>HK\$ Mn | 31/12/2015<br>HK\$ Mn |
|----------------------------------------------------|----------------------|-----------------------|
| (i) Advances to customers                          | 448,816              | 441,506               |
| Less: Impairment allowances                        |                      |                       |
| - Individual                                       | (1,060)              | (1,021)               |
| - Collective                                       | (1,617)              | (1,360)               |
|                                                    | <u>446,139</u>       | <u>439,125</u>        |
| (ii) Other accounts                                |                      |                       |
| Advances to banks and other financial institutions | 3                    | 31                    |
| Less: Impairment allowances - Individual           | (1)                  | (1)                   |
|                                                    | <u>2</u>             | <u>30</u>             |
| Notes and bonds                                    | -                    | 1                     |
| Accrued interest                                   | 2,121                | 2,635                 |
| Customer liabilities under acceptances             | 19,280               | 20,602                |
| Other accounts                                     | 11,443               | 9,778                 |
|                                                    | <u>32,844</u>        | <u>33,016</u>         |
| Less: Impairment allowances                        |                      |                       |
| - Individual                                       | (3)                  | (19)                  |
| - Collective                                       | (1)                  | (19)                  |
|                                                    | <u>32,840</u>        | <u>32,978</u>         |
| (iii) Assets held for sale ( <i>Note 38</i> )      | <u>2,464</u>         | <u>955</u>            |
|                                                    | <u>481,445</u>       | <u>473,088</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.

|                                                                                                                                 | 30/6/2016      |                       | 31/12/2015     |                       |
|---------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------------|----------------|-----------------------|
|                                                                                                                                 | 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                                                                                                          | 13,483         | 69.54                 | 13,009         | 67.44                 |
| - Property investment                                                                                                           | 41,572         | 91.82                 | 41,890         | 87.44                 |
| - Financial concerns                                                                                                            | 10,415         | 69.26                 | 10,011         | 70.44                 |
| - Stockbrokers                                                                                                                  | 3,990          | 94.83                 | 2,894          | 85.34                 |
| - Wholesale and retail trade                                                                                                    | 16,385         | 73.09                 | 18,250         | 67.56                 |
| - Manufacturing                                                                                                                 | 3,912          | 61.66                 | 4,494          | 55.72                 |
| - Transport and transport equipment                                                                                             | 5,887          | 78.75                 | 5,758          | 80.15                 |
| - Recreational activities                                                                                                       | 148            | 73.86                 | 155            | 56.66                 |
| - Information technology                                                                                                        | 2,096          | 0.92                  | 1,251          | 27.87                 |
| - Others                                                                                                                        | 21,541         | 79.93                 | 21,370         | 76.27                 |
| - Sub-total                                                                                                                     | <u>119,429</u> | 79.47                 | <u>119,082</u> | 76.51                 |
| Individuals                                                                                                                     |                |                       |                |                       |
| - Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 1,033          | 99.98                 | 1,050          | 100.00                |
| - Loans for the purchase of other residential properties                                                                        | 40,916         | 100.00                | 40,805         | 100.00                |
| - Credit card advances                                                                                                          | 3,910          | 0.00                  | 4,552          | 0.00                  |
| - Others                                                                                                                        | 23,072         | 86.07                 | 21,191         | 83.99                 |
| - Sub-total                                                                                                                     | <u>68,931</u>  | 89.66                 | <u>67,598</u>  | 88.25                 |
| Total loans for use in Hong Kong                                                                                                | 188,360        | 83.20                 | 186,680        | 80.76                 |
| Trade finance                                                                                                                   | 6,185          | 72.43                 | 5,998          | 66.66                 |
| Loans for use outside Hong Kong*                                                                                                | 254,271        | 63.33                 | 248,828        | 66.25                 |
| Total advances to customers                                                                                                     | <u>448,816</u> | 71.79                 | <u>441,506</u> | 72.39                 |

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

|                            | 30/6/2016      |                       | 31/12/2015     |                       |
|----------------------------|----------------|-----------------------|----------------|-----------------------|
|                            | Gross advances | % of secured advances | Gross advances | % of secured advances |
|                            | HK\$ Mn        | %                     | HK\$ Mn        | %                     |
| Property development       | 41,123         | 58.26                 | 42,468         | 60.86                 |
| Property investment        | 31,448         | 95.70                 | 33,439         | 95.63                 |
| Wholesale and retail trade | 18,703         | 74.54                 | 22,931         | 75.90                 |
| Manufacturing              | 7,825          | 49.74                 | 8,687          | 46.67                 |
| Others                     | 81,288         | 50.49                 | 77,247         | 53.85                 |
|                            | <u>180,387</u> | 62.60                 | <u>184,772</u> | 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:

|                                                    | 30/6/2016 | 31/12/2015 |
|----------------------------------------------------|-----------|------------|
|                                                    | HK\$ Mn   | HK\$ Mn    |
| (i) Property development                           |           |            |
| a. Individually impaired loans                     | 46        | 39         |
| b. Individual impairment allowance                 | 16        | 5          |
| c. Collective impairment allowance                 | 266       | 222        |
| d. Provision charged to income statement           |           |            |
| - individual impairment loss                       | 20        | 174        |
| - collective impairment loss                       | 79        | 136        |
| e. Written off                                     | -         | -          |
| (ii) Property investment                           |           |            |
| a. Individually impaired loans                     | 575       | 598        |
| b. Individual impairment allowance                 | 36        | 24         |
| c. Collective impairment allowance                 | 318       | 269        |
| d. Provision charged to income statement           |           |            |
| - individual impairment loss                       | 77        | 63         |
| - collective impairment loss                       | 91        | 130        |
| e. Written off                                     | 22        | 33         |
| (iii) Loans for purchase of residential properties |           |            |
| a. Individually impaired loans                     | 627       | 356        |
| b. Individual impairment allowance                 | 21        | 23         |
| c. Collective impairment allowance                 | 160       | 141        |
| d. Provision charged to income statement           |           |            |
| - individual impairment loss                       | 23        | 80         |
| - collective impairment loss                       | 23        | 57         |
| e. Written off                                     | -         | 50         |
| (iv) Wholesale and retail trade                    |           |            |
| a. Individually impaired loans                     | 1,766     | 1,455      |
| b. Individual impairment allowance                 | 515       | 502        |
| c. Collective impairment allowance                 | 159       | 146        |
| d. Provision charged to income statement           |           |            |
| - individual impairment loss                       | 675       | 727        |
| - collective impairment loss                       | 43        | 74         |
| e. Written off                                     | 106       | 189        |
| (v) Hotels                                         |           |            |
| a. Individually impaired loans                     | 929       | 912        |
| b. Individual impairment allowance                 | 93        | 56         |
| c. Collective impairment allowance                 | 66        | 63         |
| d. Provision charged to income statement           |           |            |
| - individual impairment loss                       | 66        | 62         |
| - collective impairment loss                       | 16        | 29         |
| e. Written off                                     | 9         | 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.

|                            | 30/6/2016                         |                                                 |                                      |                                       |                                       |
|----------------------------|-----------------------------------|-------------------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|
|                            | Total<br>advances to<br>customers | Advances<br>overdue for<br>over three<br>months | Impaired<br>advances to<br>customers | Individual<br>impairment<br>allowance | Collective<br>impairment<br>allowance |
|                            | HK\$ Mn                           | HK\$ Mn                                         | HK\$ Mn                              | HK\$ Mn                               | HK\$ Mn                               |
| Hong Kong                  | 186,599                           | 659                                             | 1,089                                | 253                                   | 327                                   |
| People's Republic of China | 205,671                           | 4,009                                           | 4,129                                | 766                                   | 1,151                                 |
| Other Asian Countries      | 20,821                            | 95                                              | 248                                  | 40                                    | 51                                    |
| Others                     | 35,725                            | 1                                               | 64                                   | 1                                     | 88                                    |
| Total                      | <u>448,816</u>                    | <u>4,764</u>                                    | <u>5,530</u>                         | <u>1,060</u>                          | <u>1,617</u>                          |

% of total advances to  
customers

1.23%

Market value of security held  
against impaired advances  
to customers

6,867

|                            | 31/12/2015                        |                                                 |                                      |                                       |                                       |
|----------------------------|-----------------------------------|-------------------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|
|                            | Total<br>advances to<br>customers | Advances<br>overdue for<br>over three<br>months | Impaired<br>advances to<br>customers | Individual<br>impairment<br>allowance | Collective<br>impairment<br>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.

## 20. Available-for-Sale Financial Assets

|                                                | 30/6/2016<br>HK\$ Mn | 31/12/2015<br>HK\$ Mn |
|------------------------------------------------|----------------------|-----------------------|
| Treasury bills (including Exchange Fund Bills) | 22,246               | 17,920                |
| Certificates of deposit held                   | 1,290                | 2,228                 |
| Debt securities                                | 83,929               | 70,136                |
| Equity securities                              | 3,021                | 2,832                 |
| Investment funds                               | 461                  | 479                   |
|                                                | <u>110,947</u>       | <u>93,595</u>         |
| Issued by:                                     |                      |                       |
| Central governments and central banks          | 23,321               | 19,013                |
| Public sector entities                         | 561                  | 553                   |
| Banks and other financial institutions         | 36,919               | 32,582                |
| Corporate entities                             | 49,637               | 40,927                |
| Other entities                                 | 509                  | 520                   |
|                                                | <u>110,947</u>       | <u>93,595</u>         |
| Analysed by place of listing:                  |                      |                       |
| Debt securities                                |                      |                       |
| Listed in Hong Kong                            | 19,049               | 18,236                |
| Listed outside Hong Kong                       | 33,635               | 21,344                |
|                                                | <u>52,684</u>        | <u>39,580</u>         |
| Unlisted                                       | 54,781               | 50,704                |
|                                                | <u>107,465</u>       | <u>90,284</u>         |
| Equity securities                              |                      |                       |
| Listed in Hong Kong                            | 854                  | 800                   |
| Listed outside Hong Kong                       | 1,724                | 1,501                 |
|                                                | <u>2,578</u>         | <u>2,301</u>          |
| Unlisted                                       | 443                  | 531                   |
|                                                | <u>3,021</u>         | <u>2,832</u>          |
| Investment funds                               |                      |                       |
| Listed in Hong Kong                            | 100                  | 92                    |
| Listed outside Hong Kong                       | 70                   | 63                    |
|                                                | <u>170</u>           | <u>155</u>            |
| Unlisted                                       | 291                  | 324                   |
|                                                | <u>461</u>           | <u>479</u>            |
|                                                | <u>110,947</u>       | <u>93,595</u>         |

## 21. Held-to-Maturity Investments

|                                                | 30/6/2016<br>HK\$ Mn | 31/12/2015<br>HK\$ Mn |
|------------------------------------------------|----------------------|-----------------------|
| Treasury bills (including Exchange Fund Bills) | 1,566                | 1,143                 |
| Certificates of deposit held                   | 745                  | 1,478                 |
| Debt securities                                | 3,012                | 3,578                 |
|                                                | <u>5,323</u>         | <u>6,199</u>          |
| Issued by:                                     |                      |                       |
| Central governments and central banks          | 2,311                | 1,850                 |
| Public sector entities                         | 9                    | 22                    |
| Banks and other financial institutions         | 212                  | 1,156                 |
| Corporate entities                             | 2,791                | 3,171                 |
|                                                | <u>5,323</u>         | <u>6,199</u>          |
| Analysed by place of listing:                  |                      |                       |
| Debt securities                                |                      |                       |
| Listed in Hong Kong                            | 2,456                | 2,673                 |
| Listed outside Hong Kong                       | 1,697                | 1,588                 |
|                                                | <u>4,153</u>         | <u>4,261</u>          |
| Unlisted                                       | 1,170                | 1,938                 |
|                                                | <u>5,323</u>         | <u>6,199</u>          |
| Fair value:                                    |                      |                       |
| Listed securities                              | 4,264                | 4,309                 |
| Unlisted securities                            | 1,165                | 1,940                 |
|                                                | <u>5,429</u>         | <u>6,249</u>          |

## 22. Fixed Assets

|                                                                           | 30/6/2016                               |                                 |                                                     |                             |                         |
|---------------------------------------------------------------------------|-----------------------------------------|---------------------------------|-----------------------------------------------------|-----------------------------|-------------------------|
|                                                                           | <u>Investment properties</u><br>HK\$ Mn | <u>Bank premises</u><br>HK\$ Mn | <u>Furniture, fixtures and equipment</u><br>HK\$ Mn | <u>Sub-total</u><br>HK\$ Mn | <u>Total</u><br>HK\$ Mn |
| Cost or valuation                                                         |                                         |                                 |                                                     |                             |                         |
| At 1 <sup>st</sup> January, 2016                                          | 4,891                                   | 8,703                           | 5,093                                               | 13,796                      | 18,687                  |
| Additions                                                                 | -                                       | 3                               | 185                                                 | 188                         | 188                     |
| Revaluation surplus                                                       | 45                                      | -                               | -                                                   | -                           | 45                      |
| Disposals                                                                 | (505)                                   | (366)                           | (77)                                                | (443)                       | (948)                   |
| Revaluation surplus on bank premises transferred to investment properties | -                                       | 24                              | -                                                   | 24                          | 24                      |
| Transfer from bank premises to investment properties                      | 24                                      | (24)                            | -                                                   | (24)                        | -                       |
| Transfer from investment properties to bank premises                      | (62)                                    | 62                              | -                                                   | 62                          | -                       |
| Reclassification                                                          | -                                       | 18                              | (18)                                                | -                           | -                       |
| Exchange adjustments                                                      | (18)                                    | (69)                            | (37)                                                | (106)                       | (124)                   |
| Transfer to asset classified as assets held for sale                      | (25)                                    | (77)                            | (273)                                               | (350)                       | (375)                   |
| At 30 <sup>th</sup> June, 2016                                            | 4,350                                   | 8,274                           | 4,873                                               | 13,147                      | 17,497                  |
| Accumulated depreciation and amortisation                                 |                                         |                                 |                                                     |                             |                         |
| At 1 <sup>st</sup> January, 2016                                          | -                                       | 1,613                           | 3,777                                               | 5,390                       | 5,390                   |
| Charge for the period                                                     | -                                       | 84                              | 172                                                 | 256                         | 256                     |
| Written off on disposal                                                   | -                                       | (38)                            | (71)                                                | (109)                       | (109)                   |
| Reversal due to disposal of subsidiaries                                  | -                                       | -                               | (2)                                                 | (2)                         | (2)                     |
| Reclassification                                                          | -                                       | 16                              | (16)                                                | -                           | -                       |
| Exchange adjustments                                                      | -                                       | (19)                            | (28)                                                | (47)                        | (47)                    |
| Transfer to asset classified as assets held for sale                      | -                                       | (4)                             | (144)                                               | (148)                       | (148)                   |
| At 30 <sup>th</sup> June, 2016                                            | -                                       | 1,652                           | 3,688                                               | 5,340                       | 5,340                   |
| Net book value at 30 <sup>th</sup> June, 2016                             | 4,350                                   | 6,622                           | 1,185                                               | 7,807                       | 12,157                  |
| Net book value at 31 <sup>st</sup> December, 2015                         | 4,891                                   | 7,090                           | 1,316                                               | 8,406                       | 13,297                  |
| The gross amounts of the above assets are stated:                         |                                         |                                 |                                                     |                             |                         |
| At cost                                                                   | -                                       | 7,489                           | 4,873                                               | 12,362                      | 12,362                  |
| At Directors' valuation - 1989                                            | -                                       | 785                             | -                                                   | 785                         | 785                     |
| At professional valuation - 2016                                          | 4,350                                   | -                               | -                                                   | -                           | 4,350                   |
|                                                                           | 4,350                                   | 8,274                           | 4,873                                               | 13,147                      | 17,497                  |

## 23. Trading Liabilities

|                          | 30/6/2016<br>HK\$ Mn | 31/12/2015<br>HK\$ Mn |
|--------------------------|----------------------|-----------------------|
| Exchange fund bills sold | 50                   | 888                   |
| Shares sold              | 5                    | 1                     |
|                          | <u>55</u>            | <u>889</u>            |

## 24. Other Accounts and Provisions

|                                     | 30/6/2016<br>HK\$ Mn | 31/12/2015<br>HK\$ Mn |
|-------------------------------------|----------------------|-----------------------|
| Accrued interest payable            | 3,455                | 4,269                 |
| Acceptance draft payable            | 19,280               | 20,602                |
| Liabilities held for sale (Note 38) | 378                  | 225                   |
| Other accounts                      | 22,586               | 20,231                |
|                                     | <u>45,699</u>        | <u>45,327</u>         |

## 25. Loan Capital

|                                                                                                           | 30/6/2016<br>HK\$ Mn | 31/12/2015<br>HK\$ Mn |
|-----------------------------------------------------------------------------------------------------------|----------------------|-----------------------|
| USD600 million subordinated notes, measured at amortised cost                                             | 5,004                | 4,887                 |
| USD500 million subordinated notes (under the Euro Medium Term Note Programme), measured at amortised cost | 3,900                | 3,895                 |
| SGD800 million subordinated notes (under the Euro Medium Term Note Programme), measured at amortised cost | 4,596                | 4,330                 |
| USD500 million subordinated notes (under the Euro Medium Term Note Programme), measured at amortised cost | 3,976                | 3,884                 |
|                                                                                                           | <u>17,476</u>        | <u>16,996</u>         |

Two tranches of loan capital of face value totalling HK\$4,655 million (USD600 million) and carrying amount totalling HK\$5,004 million (31/12/2015: HK\$4,887 million) were issued on 16<sup>th</sup> July, 2010 (USD450 million) and on 23<sup>rd</sup> July, 2010 (USD150 million) by the Bank. These subordinated notes carrying a coupon rate of 6.125% qualifying as Tier 2 capital are listed on the Singapore Exchange and will mature on 16<sup>th</sup> July, 2020. Hedge ineffectiveness of HK\$2 million loss in the first half of 2016 (first half 2015: HK\$3 million loss) was recorded under fair value hedge accounting.

Loan capital of face value of HK\$3,879 million (USD500 million) and carrying amount of HK\$3,900 million (31/12/2015: HK\$3,895 million) represents 6.375% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 4<sup>th</sup> November, 2011 by the Bank. The notes are listed on the Singapore Exchange and will mature on 4<sup>th</sup> May, 2022. Hedge ineffectiveness of HK\$2 million loss in the first half of 2016 (first half 2015: HK\$0.1 million loss) was recorded under the fair value hedge accounting for the USD400 million subordinated notes. The fair value as of 30<sup>th</sup> June, 2016 for the USD100 million subordinated notes was HK\$804 million (USD103.6 million) (31/12/2015: HK\$808 million (USD104.3 million)).

Loan capital of face value of HK\$4,596 million (SGD800 million) and carrying amount of HK\$4,596 million (31/12/2015: HK\$4,330 million) represents two tranches of 4.25% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 13<sup>th</sup> March, 2012 (SGD600 million) and on 27<sup>th</sup> April, 2012 (SGD200 million) by the Bank. The notes are listed on the Singapore Exchange and will mature on 13<sup>th</sup> September, 2022. Hedge ineffectiveness of HK\$1 million loss in the first half of 2016 (first half 2015: HK\$3 million loss) was recorded under the fair value hedge accounting.

Loan capital of face value of HK\$3,879 million (USD500 million) and carrying amount of HK\$3,976 million (31/12/2015: HK\$3,884 million) represents 4.25% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 20<sup>th</sup> November, 2014 by the Bank. The notes are listed on the Stock Exchange and will mature on 20<sup>th</sup> November, 2024. Hedge ineffectiveness of HK\$1 million loss in the first half of 2016 (first half 2015: HK\$0.003 million profit) was recorded under the fair value hedge accounting.

## **26. 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.

|                                                                                                             | Hong Kong banking operations |                   |                  |                   |                        |         |                  |                     |                           | Total reportable segments<br>HK\$ Mn | Inter-segment elimination |                           |         |
|-------------------------------------------------------------------------------------------------------------|------------------------------|-------------------|------------------|-------------------|------------------------|---------|------------------|---------------------|---------------------------|--------------------------------------|---------------------------|---------------------------|---------|
|                                                                                                             | Personal banking             | Corporate banking | Treasury markets | Wealth management | Financial institutions | Others  | China operations | Overseas operations | Corporate Services (Note) |                                      | Others                    | Inter-segment elimination | Total   |
|                                                                                                             | HK\$ Mn                      | HK\$ Mn           | HK\$ Mn          | HK\$ Mn           | HK\$ Mn                | HK\$ Mn | HK\$ Mn          | HK\$ Mn             | HK\$ Mn                   |                                      | HK\$ Mn                   | HK\$ Mn                   | HK\$ Mn |
| 6 months ended<br>30th June, 2016                                                                           |                              |                   |                  |                   |                        |         |                  |                     |                           |                                      |                           |                           |         |
| CONTINUING OPERATIONS                                                                                       |                              |                   |                  |                   |                        |         |                  |                     |                           |                                      |                           |                           |         |
| Net interest income/(expense)                                                                               | 1,436                        | 1,091             | (215)            | 175               | 8                      | 144     | 2,060            | 645                 | -                         | 5,344                                | 139                       | -                         | 5,483   |
| Non-interest income/(expense)                                                                               | 407                          | 70                | (62)             | 183               | 8                      | 312     | 452              | 70                  | -                         | 1,440                                | 389                       | (182)                     | 1,647   |
| Operating income                                                                                            | 1,843                        | 1,161             | (277)            | 358               | 16                     | 456     | 2,512            | 715                 | -                         | 6,784                                | 528                       | (182)                     | 7,130   |
| Operating expenses                                                                                          | (875)                        | (95)              | (56)             | (96)              | (5)                    | (285)   | (1,780)          | (234)               | -                         | (3,426)                              | (994)                     | 181                       | (4,239) |
| Operating profit/(loss) before impairment losses                                                            | 968                          | 1,066             | (333)            | 262               | 11                     | 171     | 732              | 481                 | -                         | 3,358                                | (466)                     | (1)                       | 2,891   |
| (Charge for)/write back of impairment losses on loans and advances and other accounts                       | (86)                         | (168)             | 1                | (2)               | -                      | (17)    | (943)            | (26)                | -                         | (1,241)                              | -                         | -                         | (1,241) |
| Operating profit/(loss) after impairment losses                                                             | 882                          | 898               | (332)            | 260               | 11                     | 154     | (211)            | 455                 | -                         | 2,117                                | (466)                     | (1)                       | 1,650   |
| Profit/(Loss) on sale of fixed assets, held-to-maturity investments and available-for-sale financial assets | (2)                          | 6                 | 35               | -                 | -                      | 2       | 781              | (6)                 | -                         | 816                                  | -                         | -                         | 816     |
| Profit/(Loss) on disposal of assets held for sale                                                           | -                            | -                 | -                | -                 | -                      | -       | (8)              | -                   | -                         | (8)                                  | 21                        | -                         | 13      |
| Valuation gains on investment properties                                                                    | -                            | -                 | -                | -                 | -                      | -       | -                | 1                   | -                         | 1                                    | 44                        | -                         | 45      |
| Share of profits less losses of associates                                                                  | -                            | -                 | -                | -                 | -                      | (1)     | 74               | 119                 | -                         | 192                                  | -                         | -                         | 192     |
| Profit/(Loss) before taxation                                                                               | 880                          | 904               | (297)            | 260               | 11                     | 155     | 636              | 569                 | -                         | 3,118                                | (401)                     | (1)                       | 2,716   |
| Depreciation for the period                                                                                 | (29)                         | (1)               | (1)              | (1)               | -                      | (9)     | (114)            | (10)                | -                         | (165)                                | (75)                      | -                         | (240)   |
| At 30 <sup>th</sup> June, 2016                                                                              |                              |                   |                  |                   |                        |         |                  |                     |                           |                                      |                           |                           |         |
| Segment assets                                                                                              | 70,640                       | 143,950           | 154,948          | 24,475            | 6,131                  | 19,598  | 299,634          | 90,365              | -                         | 809,741                              | 17,320                    | (79,147)                  | 747,914 |
| Investments in associates                                                                                   | -                            | -                 | -                | -                 | -                      | 48      | 1,151            | 4,994               | -                         | 6,193                                | -                         | -                         | 6,193   |
| Other assets – Asset held for sale                                                                          | -                            | -                 | -                | -                 | -                      | -       | 133              | 39                  | 2,281                     | 2,453                                | 11                        | -                         | 2,464   |
| Total assets                                                                                                | 70,640                       | 143,950           | 154,948          | 24,475            | 6,131                  | 19,646  | 300,918          | 95,398              | 2,281                     | 818,387                              | 17,331                    | (79,147)                  | 756,571 |
| Segment liabilities                                                                                         | 283,821                      | 1,167             | 66,650           | 20,514            | 3                      | 15,595  | 252,686          | 78,946              | -                         | 719,382                              | 2,056                     | (52,280)                  | 669,158 |
| Other liabilities – Liabilities held for sale                                                               | -                            | -                 | -                | -                 | -                      | -       | -                | -                   | 378                       | 378                                  | -                         | -                         | 378     |
| Total liabilities                                                                                           | 283,821                      | 1,167             | 66,650           | 20,514            | 3                      | 15,595  | 252,686          | 78,946              | 378                       | 719,760                              | 2,056                     | (52,280)                  | 669,536 |

|                                                                                                                                    | Hong Kong banking operations |                   |                  |                   |                        |         |                  |                     |                           | Total reportable segments<br>HK\$ Mn | Inter-segment elimination |                           |         |
|------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------|------------------|-------------------|------------------------|---------|------------------|---------------------|---------------------------|--------------------------------------|---------------------------|---------------------------|---------|
|                                                                                                                                    | Personal banking             | Corporate banking | Treasury markets | Wealth management | Financial institutions | Others  | China operations | Overseas operations | Corporate Services (Note) |                                      | Others                    | Inter-segment elimination | Total   |
|                                                                                                                                    | HK\$ Mn                      | HK\$ Mn           | HK\$ Mn          | HK\$ Mn           | HK\$ Mn                | HK\$ Mn | HK\$ Mn          | HK\$ Mn             | HK\$ Mn                   |                                      | HK\$ Mn                   | HK\$ Mn                   | HK\$ Mn |
| 6 months ended<br>30th June, 2015<br>(Restated)                                                                                    |                              |                   |                  |                   |                        |         |                  |                     |                           |                                      |                           |                           |         |
| CONTINUING OPERATIONS                                                                                                              |                              |                   |                  |                   |                        |         |                  |                     |                           |                                      |                           |                           |         |
| Net interest income                                                                                                                | 1,342                        | 1,191             | 101              | 190               | 35                     | 160     | 2,534            | 561                 | -                         | 6,114                                | 69                        | -                         | 6,183   |
| Non-interest income/(expense)                                                                                                      | 432                          | 351               | (433)            | 244               | 8                      | 409     | 631              | 85                  | -                         | 1,727                                | 372                       | (181)                     | 1,918   |
| Operating income                                                                                                                   | 1,774                        | 1,542             | (332)            | 434               | 43                     | 569     | 3,165            | 646                 | -                         | 7,841                                | 441                       | (181)                     | 8,101   |
| Operating expenses                                                                                                                 | (833)                        | (100)             | (62)             | (87)              | (6)                    | (317)   | (1,799)          | (232)               | -                         | (3,436)                              | (960)                     | 180                       | (4,216) |
| Operating profit/(loss) before impairment losses                                                                                   | 941                          | 1,442             | (394)            | 347               | 37                     | 252     | 1,366            | 414                 | -                         | 4,405                                | (519)                     | (1)                       | 3,885   |
| (Charge for)/write back of impairment losses on loans and advances and other accounts                                              | (70)                         | (8)               | 13               | 1                 | -                      | (31)    | (684)            | 16                  | -                         | (763)                                | (13)                      | -                         | (776)   |
| Impairment losses on available-for-sale financial assets                                                                           | -                            | -                 | -                | -                 | -                      | (1)     | -                | -                   | -                         | (1)                                  | -                         | -                         | (1)     |
| Operating profit/(loss) after impairment losses                                                                                    | 871                          | 1,434             | (381)            | 348               | 37                     | 220     | 682              | 430                 | -                         | 3,641                                | (532)                     | (1)                       | 3,108   |
| Profit/(Loss) on sale of fixed assets, loans and receivables, held-to-maturity investments and available-for-sale financial assets | (2)                          | 4                 | 46               | -                 | -                      | 3       | 1                | -                   | -                         | 52                                   | 115                       | -                         | 167     |
| Valuation gains on investment properties                                                                                           | -                            | -                 | -                | -                 | -                      | -       | -                | 15                  | -                         | 15                                   | 325                       | -                         | 340     |
| Share of profits less losses of associates                                                                                         | -                            | -                 | -                | -                 | -                      | 1       | 108              | 144                 | -                         | 253                                  | -                         | -                         | 253     |
| Profit/(Loss) before taxation                                                                                                      | 869                          | 1,438             | (335)            | 348               | 37                     | 224     | 791              | 589                 | -                         | 3,961                                | (92)                      | (1)                       | 3,868   |
| Depreciation for the period                                                                                                        | (32)                         | (1)               | (1)              | (1)               | -                      | (12)    | (117)            | (10)                | -                         | (174)                                | (78)                      | -                         | (252)   |
| At 31 <sup>st</sup> December, 2015                                                                                                 |                              |                   |                  |                   |                        |         |                  |                     |                           |                                      |                           |                           |         |
| 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 – Asset 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 |

Note: Since February 2016, BEA, together with NWS Holdings Limited, has been carrying out a review of its strategic investment in Tricor Holdings Limited and its subsidiaries ("Tricor Group"). The review considers strategic options including a possible sale of the entire interest in Tricor Group held by both BEA and NWS Holdings. Subsequently, a plan to sell Tricor Group has been initiated. Notwithstanding that a sale process is at an early stage and that the Bank has not entered into any agreement to sell its interest in Tricor Group, 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 first half of 2016 separately as discontinued operations in the consolidated income statement with comparative information re-presented. Tricor Group's assets and liabilities as at 30<sup>th</sup> June 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 31st December 2015 is not required. Nevertheless, there can be no certainty about the outcome of the sale process referred to: it may or may not result in a sale being concluded. Please refer to Note 38 for the operating results of Tricor Group after consolidation.

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

| 30/6/2016                                                        |                        |                   |                                            |                                           |                                          |                 |                          |                |
|------------------------------------------------------------------|------------------------|-------------------|--------------------------------------------|-------------------------------------------|------------------------------------------|-----------------|--------------------------|----------------|
|                                                                  | Repayable<br>on demand | Within 1<br>month | 3 months<br>or less<br>but over 1<br>month | 1 year or<br>less but<br>over 3<br>months | 5 years<br>or less<br>but over<br>1 year | Over<br>5 years | Undated<br>or<br>overdue | Total          |
|                                                                  | HK\$ Mn                | HK\$ Mn           | HK\$ Mn                                    | HK\$ Mn                                   | HK\$ Mn                                  | HK\$ Mn         | HK\$ Mn                  | HK\$ Mn        |
| <b>Assets</b>                                                    |                        |                   |                                            |                                           |                                          |                 |                          |                |
| Cash and balances with banks and other financial institutions    | 22,508                 | -                 | -                                          | 1,051                                     | -                                        | -               | 25,271                   | 48,830         |
| Placements with banks and other financial institutions           | 4                      | 41,902            | 12,499                                     | 4,095                                     | -                                        | -               | -                        | 58,500         |
| Trade bills                                                      | 95                     | 3,883             | 4,889                                      | 5,748                                     | -                                        | -               | -                        | 14,615         |
| Trading assets                                                   | -                      | 389               | 2,291                                      | 1,690                                     | 873                                      | 246             | 1,071                    | 6,560          |
| Financial assets designated at fair value through profit or loss | -                      | -                 | -                                          | 397                                       | 2,173                                    | 310             | 283                      | 3,163          |
| Positive fair value of derivatives                               | -                      | -                 | -                                          | -                                         | -                                        | -               | 5,775                    | 5,775          |
| Advances to customers and other accounts                         | 4,811                  | 52,745            | 35,460                                     | 100,049                                   | 181,118                                  | 95,454          | 11,808                   | 481,445        |
| Available-for-sale financial assets                              | -                      | 7,115             | 10,623                                     | 13,964                                    | 49,571                                   | 26,192          | 3,482                    | 110,947        |
| Held-to-maturity investments                                     | -                      | 899               | 402                                        | 1,502                                     | 1,957                                    | 563             | -                        | 5,323          |
| Undated assets                                                   | -                      | -                 | -                                          | -                                         | -                                        | -               | 21,413                   | 21,413         |
| <b>Total assets</b>                                              | <b>27,418</b>          | <b>106,933</b>    | <b>66,164</b>                              | <b>128,496</b>                            | <b>235,692</b>                           | <b>122,765</b>  | <b>69,103</b>            | <b>756,571</b> |
| <b>Liabilities</b>                                               |                        |                   |                                            |                                           |                                          |                 |                          |                |
| Deposits and balances of banks and other financial institutions  | 1,604                  | 18,235            | 4,756                                      | 5,136                                     | 248                                      | -               | -                        | 29,979         |
| Deposits from customers                                          | 187,457                | 95,297            | 106,546                                    | 116,396                                   | 22,453                                   | -               | -                        | 528,149        |
| - Demand deposits and current accounts                           | 67,840                 | -                 | -                                          | -                                         | -                                        | -               | -                        | 67,840         |
| - Savings deposits                                               | 117,904                | -                 | -                                          | -                                         | -                                        | -               | -                        | 117,904        |
| - Time, call and notice deposits                                 | 1,713                  | 95,297            | 106,546                                    | 116,396                                   | 22,453                                   | -               | -                        | 342,405        |
| Trading liabilities                                              | -                      | -                 | 50                                         | -                                         | -                                        | -               | 5                        | 55             |
| Negative fair value of derivatives                               | -                      | -                 | -                                          | -                                         | -                                        | -               | 6,113                    | 6,113          |
| Certificates of deposit issued                                   | -                      | 613               | 1,006                                      | 14,186                                    | 15,945                                   | -               | -                        | 31,750         |
| Current taxation                                                 | -                      | -                 | -                                          | 1,816                                     | -                                        | -               | -                        | 1,816          |
| Debt securities issued                                           | -                      | -                 | -                                          | 1,354                                     | 6,639                                    | -               | -                        | 7,993          |
| Loan capital                                                     | -                      | -                 | -                                          | -                                         | 17,476                                   | -               | -                        | 17,476         |
| Other liabilities                                                | 806                    | 3,665             | 6,460                                      | 16,948                                    | 7,174                                    | 2,699           | 8,453                    | 46,205         |
| <b>Total liabilities</b>                                         | <b>189,867</b>         | <b>117,810</b>    | <b>118,818</b>                             | <b>155,836</b>                            | <b>69,935</b>                            | <b>2,699</b>    | <b>14,571</b>            | <b>669,536</b> |
| <b>Net gap</b>                                                   | <b>(162,449)</b>       | <b>(10,877)</b>   | <b>(52,654)</b>                            | <b>(27,340)</b>                           | <b>165,757</b>                           | <b>120,066</b>  |                          |                |

| 31/12/2015                                                       |                        |                   |                                            |                                           |                                          |                 |                          |                |
|------------------------------------------------------------------|------------------------|-------------------|--------------------------------------------|-------------------------------------------|------------------------------------------|-----------------|--------------------------|----------------|
|                                                                  | Repayable<br>on demand | Within 1<br>month | 3 months<br>or less<br>but over 1<br>month | 1 year or<br>less but<br>over 3<br>months | 5 years<br>or less<br>but over<br>1 year | Over<br>5 years | Undated<br>or<br>overdue | Total          |
|                                                                  | HK\$ Mn                | HK\$ Mn           | HK\$ Mn                                    | HK\$ Mn                                   | HK\$ Mn                                  | HK\$ Mn         | HK\$ Mn                  | HK\$ Mn        |
| <b>Assets</b>                                                    |                        |                   |                                            |                                           |                                          |                 |                          |                |
| Cash and balances with banks and other financial institutions    | 41,490                 | 826               | -                                          | 71                                        | -                                        | -               | 26,735                   | 69,122         |
| Placements with banks and other financial institutions           | -                      | 62,384            | 15,985                                     | 2,459                                     | -                                        | -               | -                        | 80,828         |
| Trade bills                                                      | 73                     | 3,602             | 7,955                                      | 7,901                                     | -                                        | -               | 1                        | 19,532         |
| Trading assets                                                   | -                      | 1,197             | 1,121                                      | 456                                       | 1,166                                    | 50              | 1,345                    | 5,335          |
| Financial assets designated at fair value through profit or loss | -                      | 116               | 430                                        | 1,148                                     | 2,192                                    | -               | 450                      | 4,336          |
| Positive fair value of derivatives                               | -                      | -                 | -                                          | -                                         | -                                        | -               | 6,205                    | 6,205          |
| Advances to customers and other accounts                         | 5,273                  | 49,881            | 43,983                                     | 98,596                                    | 170,843                                  | 95,511          | 9,001                    | 473,088        |
| Available-for-sale financial assets                              | -                      | 5,338             | 11,072                                     | 11,647                                    | 47,846                                   | 14,381          | 3,311                    | 93,595         |
| Held-to-maturity investments                                     | 94                     | 1,081             | 831                                        | 1,289                                     | 2,330                                    | 574             | -                        | 6,199          |
| Undated assets                                                   | -                      | -                 | -                                          | -                                         | -                                        | -               | 23,124                   | 23,124         |
| <b>Total assets</b>                                              | <b>46,930</b>          | <b>124,425</b>    | <b>81,377</b>                              | <b>123,567</b>                            | <b>224,377</b>                           | <b>110,516</b>  | <b>70,172</b>            | <b>781,364</b> |
| <b>Liabilities</b>                                               |                        |                   |                                            |                                           |                                          |                 |                          |                |
| Deposits and balances of banks and other financial institutions  | 8,175                  | 15,635            | 4,889                                      | 1,960                                     | 1,408                                    | 59              | -                        | 32,126         |
| Deposits from customers                                          | 188,745                | 118,877           | 114,813                                    | 93,761                                    | 24,547                                   | -               | -                        | 540,743        |
| - Demand deposits and current accounts                           | 73,471                 | -                 | -                                          | -                                         | -                                        | -               | -                        | 73,471         |
| - Savings deposits                                               | 113,332                | -                 | -                                          | -                                         | -                                        | -               | -                        | 113,332        |
| - Time, call and notice deposits                                 | 1,942                  | 118,877           | 114,813                                    | 93,761                                    | 24,547                                   | -               | -                        | 353,940        |
| Trading liabilities                                              | -                      | 831               | 7                                          | 50                                        | -                                        | -               | 1                        | 889            |
| Negative fair value of derivatives                               | -                      | -                 | -                                          | -                                         | -                                        | -               | 6,909                    | 6,909          |
| Certificates of deposit issued                                   | -                      | 9,168             | 8,457                                      | 16,172                                    | 3,480                                    | -               | -                        | 37,277         |
| Current taxation                                                 | -                      | -                 | -                                          | 1,325                                     | -                                        | -               | -                        | 1,325          |
| Debt securities issued                                           | -                      | 841               | 2,852                                      | 2,066                                     | 7,838                                    | -               | -                        | 13,597         |
| Loan capital                                                     | -                      | -                 | -                                          | -                                         | 16,996                                   | -               | -                        | 16,996         |
| Other liabilities                                                | 850                    | 5,206             | 7,302                                      | 14,338                                    | 7,533                                    | 2,713           | 7,919                    | 45,861         |
| <b>Total liabilities</b>                                         | <b>197,770</b>         | <b>150,558</b>    | <b>138,320</b>                             | <b>129,672</b>                            | <b>61,802</b>                            | <b>2,772</b>    | <b>14,829</b>            | <b>695,723</b> |
| <b>Net gap</b>                                                   | <b>(150,840)</b>       | <b>(26,133)</b>   | <b>(56,943)</b>                            | <b>(6,105)</b>                            | <b>162,575</b>                           | <b>107,744</b>  |                          |                |

## 28. Deferred Tax Assets and Liabilities Recognised

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

| Deferred tax arising from:                           | Depreciation allowances in excess of related depreciation | Revaluation of properties | Impairment losses on financial assets | Revaluation of available-for-sale securities | Tax losses  | Others    | Total      |
|------------------------------------------------------|-----------------------------------------------------------|---------------------------|---------------------------------------|----------------------------------------------|-------------|-----------|------------|
|                                                      | HK\$ Mn                                                   | HK\$ Mn                   | HK\$ Mn                               | HK\$ Mn                                      | HK\$ Mn     | HK\$ Mn   | HK\$ Mn    |
| At 1 <sup>st</sup> January, 2016                     | 285                                                       | 193                       | (270)                                 | 149                                          | (18)        | 14        | 353        |
| (Credited)/Charged to income statement               | (22)                                                      | (81)                      | (124)                                 | -                                            | (7)         | 4         | (230)      |
| Credited to reserves                                 | -                                                         | -                         | -                                     | (33)                                         | -           | -         | (33)       |
| Reversal due to disposal of subsidiaries             | -                                                         | -                         | -                                     | -                                            | (1)         | -         | (1)        |
| Exchange and other adjustments                       | -                                                         | (1)                       | 5                                     | (2)                                          | -           | -         | 2          |
| Transfer to asset classified as assets held for sale | (3)                                                       | (1)                       | 1                                     | -                                            | 9           | 4         | 10         |
| At 30 <sup>th</sup> June, 2016                       | <u>260</u>                                                | <u>110</u>                | <u>(388)</u>                          | <u>114</u>                                   | <u>(17)</u> | <u>22</u> | <u>101</u> |
| Balance as at 31 <sup>st</sup> December, 2015        | <u>285</u>                                                | <u>193</u>                | <u>(270)</u>                          | <u>149</u>                                   | <u>(18)</u> | <u>14</u> | <u>353</u> |

## 29. Reserves

|                                      | 30/6/2016<br>HK\$ Mn | 31/12/2015<br>HK\$ Mn |
|--------------------------------------|----------------------|-----------------------|
| General reserve                      | 14,015               | 13,953                |
| Revaluation reserve on bank premises | 1,601                | 1,639                 |
| Investment revaluation reserve       | 1,456                | 1,383                 |
| Exchange revaluation reserve         | (546)                | (162)                 |
| Other reserves                       | 5,242                | 4,986                 |
| Retained profits*                    | <u>22,197</u>        | <u>21,799</u>         |
|                                      | <u>43,965</u>        | <u>43,598</u>         |
| Proposed dividends, not provided for | <u>751</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 30<sup>th</sup> June, 2016, HK\$4,760 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.

### 30. Consolidated Cash Flow Statement

|                                                                                                                                      |               |               |
|--------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Cash and cash equivalents                                                                                                            |               |               |
|                                                                                                                                      | 30/6/2016     | 30/6/2015     |
|                                                                                                                                      | HK\$ Mn       | HK\$ Mn       |
| (i) Components of cash and cash equivalents in the consolidated cash flow statement                                                  |               |               |
| Cash and balances with banks and other financial institutions                                                                        | 23,905        | 28,487        |
| Placements with banks and other financial institutions with original maturity within three months                                    | 46,876        | 52,288        |
| Treasury bills with original maturity within three months                                                                            | 15,090        | 6,258         |
| Certificates of deposit held with original maturity within three months                                                              | 2,372         | 1,830         |
| Debt securities with original maturity within three months                                                                           | -             | 425           |
| Add: Cash and balances with banks and other financial institutions included in "Assets held for sale" (Note 38)                      | 240           | -             |
| Placements with banks and other financial institutions with original maturity within three months included in "Assets held for sale" | 79            | -             |
|                                                                                                                                      | <u>88,562</u> | <u>89,288</u> |
| (ii) Reconciliation with the consolidated statement of financial position                                                            |               |               |
| Cash and balances with banks and other financial institutions                                                                        | 48,830        | 59,391        |
| Placements with banks and other financial institutions                                                                               | 58,500        | 77,485        |
| Treasury bills, certificates of deposit held and debt securities                                                                     |               |               |
| - trading assets                                                                                                                     | 5,489         | 7,143         |
| - designated at fair value through profit or loss                                                                                    | 2,880         | 5,083         |
| - advances to customers and other accounts                                                                                           | -             | 78            |
| - available-for-sale                                                                                                                 | 107,465       | 86,591        |
| - held-to-maturity                                                                                                                   | 5,323         | 7,779         |
|                                                                                                                                      | 121,157       | 106,674       |
| Add: Cash and balances with banks and other financial institutions included in "Assets held for sale" (Note 38)                      | 240           | -             |
| Placements with banks and other financial institutions included in "Assets held for sale" (Note 38)                                  | 222           | -             |
| Amount shown in the consolidated statement of financial position                                                                     | 228,949       | 243,550       |
| Less : Amounts with an original maturity of beyond three months                                                                      | (115,462)     | (123,358)     |
| Cash balance with central bank subject to regulatory restriction                                                                     | (24,925)      | (30,904)      |
| Cash and cash equivalents in the consolidated cash flow statement                                                                    | <u>88,562</u> | <u>89,288</u> |

### 31. Offsetting Financial Instruments

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

|                                       | At 30 <sup>th</sup> June, 2016                           |                                                                                                                          |                                                                                                       |                                                                |               |
|---------------------------------------|----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|---------------|
|                                       | Gross<br>amounts of<br>recognised<br>financial<br>assets | Gross<br>amounts of<br>recognised<br>financial<br>liabilities<br>set off in the<br>statement of<br>financial<br>position | Net amounts<br>of financial<br>assets<br>presented<br>in the<br>statement of<br>financial<br>position | Related<br>financial<br>instruments<br>that are not<br>set off | Net<br>amount |
|                                       | HK\$ Mn                                                  | HK\$ Mn                                                                                                                  | HK\$ Mn                                                                                               | HK\$ Mn                                                        | HK\$ Mn       |
| <b>Assets</b>                         |                                                          |                                                                                                                          |                                                                                                       |                                                                |               |
| Positive fair value of<br>derivatives | 25                                                       | -                                                                                                                        | 25                                                                                                    | (17)                                                           | 8             |
| Other accounts                        | 562                                                      | (301)                                                                                                                    | 261                                                                                                   | -                                                              | 261           |
| Total                                 | 587                                                      | (301)                                                                                                                    | 286                                                                                                   | (17)                                                           | 269           |

|                                       | At 30 <sup>th</sup> June, 2016                                |                                                                                                                     |                                                                                                            |                                                                |               |
|---------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|---------------|
|                                       | Gross<br>amounts of<br>recognised<br>financial<br>liabilities | Gross<br>amounts of<br>recognised<br>financial<br>assets<br>set off in the<br>statement of<br>financial<br>position | Net amounts<br>of financial<br>liabilities<br>presented<br>in the<br>statement of<br>financial<br>position | Related<br>financial<br>instruments<br>that are not<br>set off | Net<br>amount |
|                                       | HK\$ Mn                                                       | HK\$ Mn                                                                                                             | HK\$ Mn                                                                                                    | HK\$ Mn                                                        | HK\$ Mn       |
| <b>Liabilities</b>                    |                                                               |                                                                                                                     |                                                                                                            |                                                                |               |
| Negative fair value of<br>derivatives | 105                                                           | -                                                                                                                   | 105                                                                                                        | (17)                                                           | 88            |
| Other accounts                        | 301                                                           | (301)                                                                                                               | -                                                                                                          | -                                                              | -             |
| Total                                 | 406                                                           | (301)                                                                                                               | 105                                                                                                        | (17)                                                           | 88            |

|                                       | At 31 <sup>st</sup> December, 2015                       |                                                                                                                          |                                                                                                       |                                                                |               |
|---------------------------------------|----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|---------------|
|                                       | Gross<br>amounts of<br>recognised<br>financial<br>assets | Gross<br>amounts of<br>recognised<br>financial<br>liabilities<br>set off in the<br>statement of<br>financial<br>position | Net amounts<br>of financial<br>assets<br>presented<br>in the<br>statement of<br>financial<br>position | Related<br>financial<br>instruments<br>that are not<br>set off | Net<br>amount |
|                                       | HK\$ Mn                                                  | HK\$ Mn                                                                                                                  | HK\$ Mn                                                                                               | HK\$ Mn                                                        | HK\$ Mn       |
| <b>Assets</b>                         |                                                          |                                                                                                                          |                                                                                                       |                                                                |               |
| Positive fair value of<br>derivatives | 28                                                       | -                                                                                                                        | 28                                                                                                    | (28)                                                           | -             |
| Other accounts                        | 403                                                      | (387)                                                                                                                    | 16                                                                                                    | -                                                              | 16            |
| Total                                 | 431                                                      | (387)                                                                                                                    | 44                                                                                                    | (28)                                                           | 16            |

At 31<sup>st</sup> December, 2015

|                                       | Gross<br>amounts of<br>recognised<br>financial<br>liabilities | Gross<br>amounts of<br>recognised<br>financial<br>assets<br>set off in the<br>statement of<br>financial<br>position | Net amounts<br>of financial<br>liabilities<br>presented<br>in the<br>statement of<br>financial<br>position | Related<br>financial<br>instruments<br>that are not<br>set off | Net<br>amount |
|---------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|---------------|
|                                       | HK\$ Mn                                                       | HK\$ Mn                                                                                                             | HK\$ Mn                                                                                                    | HK\$ Mn                                                        | HK\$ Mn       |
| <b>Liabilities</b>                    |                                                               |                                                                                                                     |                                                                                                            |                                                                |               |
| Negative fair value of<br>derivatives | 140                                                           | -                                                                                                                   | 140                                                                                                        | (28)                                                           | 112           |
| Other accounts                        | 519                                                           | (387)                                                                                                               | 132                                                                                                        | -                                                              | 132           |
| Total                                 | 659                                                           | (387)                                                                                                               | 272                                                                                                        | (28)                                                           | 244           |

### 32. Fair Values of Financial Instruments

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

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

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

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

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

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

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

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

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

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

|                                                                       | 30/6/2016     |               |             |                | 31/12/2015    |               |              |                |
|-----------------------------------------------------------------------|---------------|---------------|-------------|----------------|---------------|---------------|--------------|----------------|
|                                                                       | Level One     | Level Two     | Level Three | Total          | Level One     | Level Two     | Level Three  | Total          |
|                                                                       | HK\$ Mn       | HK\$ Mn       | HK\$ Mn     | HK\$ Mn        | HK\$ Mn       | HK\$ Mn       | HK\$ Mn      | HK\$ Mn        |
| <b><u>Recurring fair value measurement</u></b>                        |               |               |             |                |               |               |              |                |
| <b>Assets</b>                                                         |               |               |             |                |               |               |              |                |
| Trading assets                                                        | 1,348         | 5,212         | -           | 6,560          | 2,276         | 3,059         | -            | 5,335          |
| Financial assets designated at fair value through profit or loss      | 1,772         | 1,391         | -           | 3,163          | 2,877         | 1,459         | -            | 4,336          |
| Positive fair value of derivatives                                    | -             | 5,775         | -           | 5,775          | -             | 3,064         | 3,141        | 6,205          |
| Available-for-sale financial assets                                   | <u>74,341</u> | <u>35,963</u> | <u>643</u>  | <u>110,947</u> | <u>51,672</u> | <u>41,173</u> | <u>750</u>   | <u>93,595</u>  |
|                                                                       | <u>77,461</u> | <u>48,341</u> | <u>643</u>  | <u>126,445</u> | <u>56,825</u> | <u>48,755</u> | <u>3,891</u> | <u>109,471</u> |
| <b>Liabilities</b>                                                    |               |               |             |                |               |               |              |                |
| Trading liabilities                                                   | 55            | -             | -           | 55             | 889           | -             | -            | 889            |
| Negative fair value of derivatives                                    | -             | 6,113         | -           | 6,113          | -             | 3,892         | 3,017        | 6,909          |
| Financial liabilities designated at fair value through profit or loss | <u>-</u>      | <u>19,631</u> | <u>-</u>    | <u>19,631</u>  | <u>-</u>      | <u>18,996</u> | <u>-</u>     | <u>18,996</u>  |
|                                                                       | <u>55</u>     | <u>25,744</u> | <u>-</u>    | <u>25,799</u>  | <u>889</u>    | <u>22,888</u> | <u>3,017</u> | <u>26,794</u>  |

During the six months ended 30<sup>th</sup> June, 2016, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy (2015: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about significant unobservable inputs in Level 3 valuations:

|                                                | <b>Valuation technique</b> | <b>Significant unobservable input(s)</b>       |
|------------------------------------------------|----------------------------|------------------------------------------------|
| Unlisted available-for-sale equity instruments | Discounted cash flow model | Forecasted cash flows and terminal growth rate |
| Structured derivatives                         | Option model               | Expected volatility                            |

The fair value of unlisted available-for-sale equity instruments is determined using the discounted cash flow model and the significant unobservable inputs used in the fair value measurement are forecasted cash flows and terminal growth rate. The fair value measurement is positively correlated to the net cash inflows and terminal growth rate.

The fair value of embedded options in structured derivatives is determined using option valuation model and the significant unobservable input used in the fair value measurement is the expected volatility. The fair value of the instrument is positively correlated to the expected volatility.

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

(1) Valuation of financial instruments with significant unobservable inputs

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

During the six months ended 30th June, 2016, the Group had developed an internal valuation model based on observable market inputs for pricing various foreign exchange, equity and interest rate contracts. As a result, these financial instruments were transferred from Level 3 to Level 2 of the fair value hierarchy at the reporting date (2015: Nil).

|                                                                                                                                                                             | 30/6/2016                          |                                     |         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-------------------------------------|---------|
|                                                                                                                                                                             | Positive fair value of derivatives | Available-for-sale financial assets | Total   |
|                                                                                                                                                                             | HK\$ Mn                            | HK\$ Mn                             | HK\$ Mn |
| <b>Assets</b>                                                                                                                                                               |                                    |                                     |         |
| At 1 <sup>st</sup> January, 2016                                                                                                                                            | 3,141                              | 750                                 | 3,891   |
| Purchases                                                                                                                                                                   | -                                  | 7                                   | 7       |
| Settlements                                                                                                                                                                 | (617)                              | (24)                                | (641)   |
| Changes in fair value recognised in the income statement                                                                                                                    | (1,110)                            | -                                   | (1,110) |
| Changes in fair value recognised in the other comprehensive income                                                                                                          | -                                  | (62)                                | (62)    |
| Exchange adjustments                                                                                                                                                        | -                                  | 1                                   | 1       |
| Transfer to level 2                                                                                                                                                         | (1,414)                            | -                                   | (1,414) |
| Transfer to asset classified as assets held for sale                                                                                                                        | -                                  | (29)                                | (29)    |
| At 30 <sup>th</sup> June, 2016                                                                                                                                              | -                                  | 643                                 | 643     |
| Total gains or losses for the period included in available-for-sale fair value reserve of the other comprehensive income for assets held at the end of the reporting period | -                                  | (62)                                | (62)    |
| Total gains or losses for the period included in the income statement for assets held at the end of the reporting period recorded in net trading income                     | -                                  | -                                   | -       |

|                                                                                                                                                                           | 31/12/2015                         |                                     |              |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-------------------------------------|--------------|
|                                                                                                                                                                           | Positive fair value of derivatives | Available-for-sale financial assets | Total        |
|                                                                                                                                                                           | HK\$ Mn                            | HK\$ Mn                             | HK\$ Mn      |
| <b>Assets</b>                                                                                                                                                             |                                    |                                     |              |
| At 1 <sup>st</sup> January, 2015                                                                                                                                          | 1,554                              | 993                                 | 2,547        |
| Purchases                                                                                                                                                                 | -                                  | 60                                  | 60           |
| Settlements                                                                                                                                                               | (333)                              | (322)                               | (655)        |
| Changes in fair value recognised in the income statement                                                                                                                  | 1,920                              | (15)                                | 1,905        |
| Changes in fair value recognised in the other comprehensive income                                                                                                        | -                                  | 75                                  | 75           |
| Exchange adjustments                                                                                                                                                      | -                                  | (41)                                | (41)         |
| At 31 <sup>st</sup> December, 2015                                                                                                                                        | <u>3,141</u>                       | <u>750</u>                          | <u>3,891</u> |
| Total gains or losses for the year included in available-for-sale fair value reserve of the other comprehensive income for assets held at the end of the reporting period | <u>-</u>                           | <u>75</u>                           | <u>75</u>    |
| Total gains or losses for the year included in the income statement for assets held at the end of the reporting period recorded in net trading income                     | <u>1,920</u>                       | <u>-</u>                            | <u>1,920</u> |

|                                                                                                                                                              | 30/6/2016                          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|
|                                                                                                                                                              | Negative fair value of derivatives |
|                                                                                                                                                              | HK\$ Mn                            |
| <b>Liabilities</b>                                                                                                                                           |                                    |
| At 1 <sup>st</sup> January, 2016                                                                                                                             | 3,017                              |
| Settlements                                                                                                                                                  | (615)                              |
| Changes in fair value recognised in the income statement                                                                                                     | (917)                              |
| Transfer to level 2                                                                                                                                          | <u>(1,485)</u>                     |
| At 30 <sup>th</sup> June, 2016                                                                                                                               | <u>-</u>                           |
| Total gains or losses for the period included in the income statement for liabilities held at the end of the reporting period recorded in net trading income | <u>-</u>                           |

|                                                                                                                                                            | 31/12/2015                         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|
|                                                                                                                                                            | Negative fair value of derivatives |
|                                                                                                                                                            | HK\$ Mn                            |
| <b>Liabilities</b>                                                                                                                                         |                                    |
| At 1 <sup>st</sup> January, 2015                                                                                                                           | 1,571                              |
| Settlements                                                                                                                                                | (336)                              |
| Changes in fair value recognised in the income statement                                                                                                   | <u>1,782</u>                       |
| At 31 <sup>st</sup> December, 2015                                                                                                                         | <u>3,017</u>                       |
| Total gains or losses for the year included in the income statement for liabilities held at the end of the reporting period recorded in net trading income | <u>1,782</u>                       |

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

|                                     | 30/6/2016                         |                |                                    |                |
|-------------------------------------|-----------------------------------|----------------|------------------------------------|----------------|
|                                     | Effect recorded in profit or loss |                | Effect recorded directly in equity |                |
|                                     | Favourable                        | (Unfavourable) | Favourable                         | (Unfavourable) |
|                                     | HK\$ Mn                           | HK\$ Mn        | HK\$ Mn                            | HK\$ Mn        |
| Positive fair value of derivatives  | -                                 | -              | -                                  | -              |
| Available-for-sale financial assets | -                                 | -              | 54                                 | (54)           |
|                                     | <u>-</u>                          | <u>-</u>       | <u>54</u>                          | <u>(54)</u>    |
| Negative fair value of derivatives  | <u>-</u>                          | <u>-</u>       | <u>-</u>                           | <u>-</u>       |
| 31/12/2015                          |                                   |                |                                    |                |
|                                     | Effect recorded in profit or loss |                | Effect recorded directly in equity |                |
|                                     | Favourable                        | (Unfavourable) | Favourable                         | (Unfavourable) |
|                                     | HK\$ Mn                           | HK\$ Mn        | HK\$ Mn                            | HK\$ Mn        |
| Positive fair value of derivatives  | 262                               | (262)          | -                                  | -              |
| Available-for-sale financial assets | -                                 | -              | 63                                 | (63)           |
|                                     | <u>262</u>                        | <u>(262)</u>   | <u>63</u>                          | <u>(63)</u>    |
| Negative fair value of derivatives  | <u>252</u>                        | <u>(252)</u>   | <u>-</u>                           | <u>-</u>       |

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

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

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

- (i) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the end of the reporting period.
- (ii) The fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances from both the carrying amount and fair value.
- (iii) The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

- (iv) The fair value of unquoted equity investments is estimated, if possible, using the applicable dividend discount model, or share of net asset value in the investment, or applying a discount to the market value of investments with a lock-up period.
- (v) The fair value of unlisted open-ended investment funds is estimated using the net asset value per share as reported by the managers of such funds.
- (vi) The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The carrying amounts of the financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30<sup>th</sup> June, 2016 and 31<sup>st</sup> December, 2015 except as follows:

|                                 | 30/6/2016       |            | 31/12/2015      |            |
|---------------------------------|-----------------|------------|-----------------|------------|
|                                 | Carrying amount | Fair value | Carrying amount | Fair value |
|                                 | HK\$ Mn         | HK\$ Mn    | HK\$ Mn         | HK\$ Mn    |
| Financial assets                |                 |            |                 |            |
| Held-to-maturity investments    | 5,323           | 5,429      | 6,199           | 6,249      |
| Financial liabilities           |                 |            |                 |            |
| Certificates of deposits issued | 12,544          | 12,544     | 20,820          | 20,831     |
| Debt securities issued          | 7,568           | 7,613      | 11,058          | 11,118     |
| Subordinated liabilities        | 17,476          | 17,845     | 16,996          | 17,367     |

### 33. Off-balance Sheet Exposures

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

|                                                                       | 30/6/2016      | 31/12/2015     |
|-----------------------------------------------------------------------|----------------|----------------|
|                                                                       | HK\$ Mn        | HK\$ Mn        |
| Contractual amounts of contingent liabilities and commitments         |                |                |
| Direct credit substitutes                                             | 30,636         | 32,679         |
| Transaction-related contingencies                                     | 821            | 1,039          |
| Trade-related contingencies                                           | 1,060          | 747            |
| Commitments that are unconditionally cancellable without prior notice | 161,322        | 168,798        |
| Other commitments with an original maturity                           |                |                |
| - up to 1 year                                                        | 14,051         | 15,796         |
| - over 1 year                                                         | 27,551         | 23,421         |
| Total                                                                 | <u>235,441</u> | <u>242,480</u> |
| Credit risk weighted amounts                                          | <u>33,287</u>  | <u>30,430</u>  |

|                                 | 30/6/2016<br>HK\$ Mn | 31/12/2015<br>HK\$ Mn |
|---------------------------------|----------------------|-----------------------|
| Fair value of derivatives       |                      |                       |
| Assets                          |                      |                       |
| Exchange rate contracts         | 3,695                | 3,836                 |
| Interest rate contracts         | 1,978                | 2,121                 |
| Equity contracts                | 76                   | 239                   |
| Others                          | 26                   | 9                     |
|                                 | <u>5,775</u>         | <u>6,205</u>          |
| Liabilities                     |                      |                       |
| Exchange rate contracts         | 3,594                | 4,754                 |
| Interest rate contracts         | 2,277                | 1,932                 |
| Equity contracts                | 210                  | 221                   |
| Others                          | 32                   | 2                     |
|                                 | <u>6,113</u>         | <u>6,909</u>          |
| Notional amounts of derivatives |                      |                       |
| Exchange rate contracts         | 485,788              | 458,645               |
| Interest rate contracts         | 540,745              | 624,108               |
| Equity contracts                | 7,355                | 9,928                 |
| Others                          | 2,937                | 9,329                 |
|                                 | <u>1,036,825</u>     | <u>1,102,010</u>      |
| Credit risk weighted amounts *  |                      |                       |
| Exchange rate contracts         | 6,278                | 6,693                 |
| Interest rate contracts         | 1,123                | 1,090                 |
| Equity contracts                | 183                  | 526                   |
| Others                          | 621                  | 760                   |
|                                 | <u>8,205</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 30<sup>th</sup> June, 2016 and 31<sup>st</sup> December, 2015.

(b) Capital Commitments

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

|                                               | 30/6/2016<br>HK\$ Mn | 31/12/2015<br>HK\$ Mn |
|-----------------------------------------------|----------------------|-----------------------|
| Expenditure authorised and contracted for     | 230                  | 228                   |
| Expenditure authorised but not contracted for | 252                  | 153                   |
|                                               | <u>482</u>           | <u>381</u>            |

### 34. Material Related Party Transactions

(a) Key management personnel remuneration

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

|                              | 30/6/2016<br>HK\$ Mn | 30/6/2015<br>HK\$ Mn |
|------------------------------|----------------------|----------------------|
| Short-term employee benefits | 54                   | 57                   |
| Post-employment benefits     | 3                    | 3                    |
| Equity compensation benefits | 16                   | 12                   |
|                              | <u>73</u>            | <u>72</u>            |

(b) The Group maintains certain retirement benefit schemes for its staff. In the six months ended 30<sup>th</sup> June, 2016, the total amount of contributions the Group made to the schemes was HK\$85 million (six months ended 30<sup>th</sup> June, 2015: HK\$83 million).

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

The interest received from and interest paid to the Group's related parties for the six months ended 30<sup>th</sup> June, 2016, outstanding balances of amounts due from and due to them at 30<sup>th</sup> June, 2016 and maximum outstanding balance of amounts due from and due to them for the six months ended 30<sup>th</sup> June, 2016 are aggregated as follows:

|                          | Key management<br>personnel |                      | Associates           |                      |
|--------------------------|-----------------------------|----------------------|----------------------|----------------------|
|                          | 30/6/2016<br>HK\$ Mn        | 30/6/2015<br>HK\$ Mn | 30/6/2016<br>HK\$ Mn | 30/6/2015<br>HK\$ Mn |
| Interest income          | 47                          | 49                   | 10                   | 6                    |
| Interest expense         | 14                          | 24                   | -                    | -                    |
| Amounts due from         | 5,714                       | 5,191                | 678                  | 768                  |
| Amounts due to           | 3,881                       | 3,610                | 92                   | 97                   |
| Maximum amounts due from | 7,835                       | 7,727                | 742                  | 785                  |
| Maximum amounts due to   | 6,207                       | 7,884                | 490                  | 1,007                |
| Committed facilities to  | 3,807                       | 5,447                | 296                  | 352                  |

### **35. Basis of Consolidation**

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

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

### **36. Comparative Figures**

Certain 2015 comparative figures have been restated to conform to current period's presentation. Please refer to Consolidated Income Statement, Condensed Consolidated Cash Flow Statement, Note 9 and Note 38 for the effect of restatement.

### **37. Statement of Compliance**

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Listing Rules and in compliance with HKAS 34, "Interim Financial Reporting", issued by the HKICPA. It was authorised for issue on 19<sup>th</sup> August, 2016. It also contains the disclosure information required under the Banking (Disclosure) Rules made under section 60A of the Banking Ordinance.

### **38. Discontinued Operations and Assets Held for Sale**

Since February 2016, BEA, together with NWS Holdings Limited, has been carrying out a review of its strategic investment in Tricor Holdings Limited and its subsidiaries ("Tricor Group"). The review considers strategic options including a possible sale of the entire interest in Tricor Group held by both BEA and NWS Holdings. Subsequently, a plan to sell Tricor Group has been initiated. Notwithstanding that a sale process is at an early stage and that the Bank has not entered into any agreement to sell its interest in Tricor Group, 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 first half of 2016 separately as discontinued operations in the consolidated income statement with comparative information re-presented. Tricor Group's assets and liabilities as at 30<sup>th</sup> June 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. Nevertheless, there can be no certainty about the outcome of the sale process referred to: it may or may not result in a sale being concluded.

The comparative amounts of consolidated income statement have been restated as if the discontinued operations had been discontinued at the beginning of year 2015. The consolidated statement of changes in equity and the condensed consolidated cash flow statement are prepared on the same basis as 2015.

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

|                                                           | 6 months<br>ended<br>30/6/2016<br>HK\$ Mn | 6 months<br>ended<br>30/6/2015<br>HK\$ Mn |
|-----------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Interest income                                           | 3                                         | 3                                         |
| Interest expense                                          | (1)                                       | -                                         |
| Net interest income                                       | 2                                         | 3                                         |
| Fee and commission income                                 | 626                                       | 597                                       |
| Fee and commission expense                                | -                                         | -                                         |
| Net fee and commission income                             | 626                                       | 597                                       |
| Net trading losses                                        | (2)                                       | (2)                                       |
| Other operating income                                    | 1                                         | -                                         |
| Non-interest income                                       | 625                                       | 595                                       |
| Operating income                                          | 627                                       | 598                                       |
| Operating expenses                                        | (441)                                     | (404)                                     |
| Operating profit before impairment losses                 | 186                                       | 194                                       |
| Impairment losses on loans and advances                   | (2)                                       | (5)                                       |
| Operating profit after impairment losses                  | 184                                       | 189                                       |
| Net profit on sale of available-for-sale financial assets | 4                                         | -                                         |
| Share of profits less losses of associates                | 2                                         | 1                                         |
| Profit for the period before taxation                     | 190                                       | 190                                       |
| Income tax                                                |                                           |                                           |
| Current tax                                               |                                           |                                           |
| - Hong Kong                                               | (17)                                      | (16)                                      |
| - Outside Hong Kong                                       | (16)                                      | (19)                                      |
| Deferred tax                                              | 2                                         | -                                         |
| Profit for the period from discontinued operations        | 159                                       | 155                                       |

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

|                                                                 | 30/6/2016<br>HK\$ Mn | 31/12/2015<br>HK\$ Mn |
|-----------------------------------------------------------------|----------------------|-----------------------|
| <b>ASSETS</b>                                                   |                      |                       |
| Cash and balances with banks and other financial institutions   | 240                  | 173                   |
| Placements with banks and other financial institutions          | 222                  | 35                    |
| Other accounts                                                  | 359                  | 598                   |
| Available-for-sale financial assets                             | 29                   | -                     |
| Investments in associates                                       | 24                   | -                     |
| Fixed assets                                                    | 216                  | 8                     |
| - Investment properties                                         | 25                   | -                     |
| - Other property and equipment                                  | 191                  | 8                     |
| Goodwill and intangible assets                                  | 1,178                | 2                     |
| Deferred tax assets                                             | 13                   | 5                     |
| Assets held for sale                                            | 2,281                | 821                   |
| <b>LIABILITIES</b>                                              |                      |                       |
| Deposits and balances of banks and other financial institutions | 75                   | 40                    |
| Current taxation                                                | 39                   | 1                     |
| Deferred tax liabilities                                        | 3                    | -                     |
| Other accounts and provisions                                   | 261                  | 184                   |
| Liabilities held for sale (Note 24)                             | 378                  | 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 ("Tung Shing") 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 ("BEA Wealth Management") through the merger of BEA Wealth Management 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 period ended 30<sup>th</sup> June, 2016.

|                                              | 30/6/2016<br>HK\$ Mn | 31/12/2015<br>HK\$ Mn |
|----------------------------------------------|----------------------|-----------------------|
| Assets held for sale ( <i>Note 19</i> )      |                      |                       |
| Disposal group held for sale                 | 2,281                | 821                   |
| Other properties and loans                   | 183                  | 134                   |
|                                              | <u>2,464</u>         | <u>955</u>            |
| Liabilities held for sale ( <i>Note 24</i> ) |                      |                       |
| Disposal group held for sale                 | <u>378</u>           | <u>225</u>            |

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

|                                                            | 30/6/2016<br>HK\$ Mn | 30/6/2015<br>HK\$ Mn |
|------------------------------------------------------------|----------------------|----------------------|
| Cumulative income recognised in other comprehensive income | <u>31</u>            | <u>-</u>             |

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

|                           | 30/6/2016<br>HK\$ Mn | 30/6/2015<br>HK\$ Mn |
|---------------------------|----------------------|----------------------|
| Operating activities      | 125                  | 7                    |
| Investing activities      | (14)                 | (14)                 |
| Financing activities      | (80)                 | (65)                 |
| Net cash inflow/(outflow) | <u>31</u>            | <u>(72)</u>          |

## **SUPPLEMENTARY FINANCIAL INFORMATION**

### **A. Capital Adequacy**

|                                    | 30/6/2016 | 31/12/2015<br>Restated |
|------------------------------------|-----------|------------------------|
|                                    | HK\$ Mn   | HK\$ Mn                |
| Capital base                       |           |                        |
| - Common Equity Tier 1 capital     | 62,547    | 61,571                 |
| - Additional Tier 1 capital        | 7,142     | 7,210                  |
| - Total Tier 1 capital             | 69,689    | 68,781                 |
| - Tier 2 capital                   | 16,523    | 17,703                 |
| - Total capital                    | 86,212    | 86,484                 |
| Risk weighted assets by risk type  |           |                        |
| - Credit risk                      | 451,212   | 458,920                |
| - Market risk                      | 18,524    | 17,231                 |
| - Operational risk                 | 29,816    | 30,507                 |
|                                    | 499,552   | 506,658                |
| Less: Deductions                   | (2,956)   | (3,018)                |
|                                    | 496,596   | 503,640                |
|                                    |           |                        |
|                                    | 30/6/2016 | 31/12/2015             |
|                                    | %         | %                      |
| Common Equity Tier 1 capital ratio | 12.6      | 12.2                   |
| Tier 1 capital ratio               | 14.0      | 13.7                   |
| Total capital ratio                | 17.4      | 17.2                   |

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

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

The subsidiaries that are included in consolidation for regulatory purposes are listed in Note 35 of the Interim Report.

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

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

|                                  |                  | 30/6/2016 | 31/12/2015 |
|----------------------------------|------------------|-----------|------------|
|                                  |                  | %         | %          |
| Average liquidity coverage ratio | - First quarter  | 151.3     | 127.2      |
|                                  | - Second quarter | 141.2     | 137.5      |
|                                  | - Third quarter  | N.A.      | 132.1      |
|                                  | - Fourth quarter | N.A.      | 151.2      |

The liquidity coverage ratio is calculated in accordance with the Banking (Liquidity) Rules effective from 1<sup>st</sup> January, 2015. The information for the regulatory disclosure can be found on the Bank's website accessible through the "Regulatory 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 regions constituting 10% or more of the aggregate international claims after taking into account any recognised risk transfer are disclosed.

|                                        | 30/6/2016               |                 |                                 |                              |         |              |                                  |
|----------------------------------------|-------------------------|-----------------|---------------------------------|------------------------------|---------|--------------|----------------------------------|
|                                        | Non-bank private sector |                 |                                 | Of which:                    |         |              |                                  |
|                                        | Banks                   | Official sector | Non-bank financial institutions | Non-financial private sector | Others  | Total Claims | Local claims (in all currencies) |
| Counterparty country/<br>jurisdiction  | HK\$ Mn                 | HK\$ Mn         | HK\$ Mn                         | HK\$ Mn                      | HK\$ Mn | HK\$ Mn      | HK\$ Mn                          |
| Developed countries                    | 25,175                  | 5,651           | 4,408                           | 39,028                       | 6       | 74,268       | 34,945                           |
| Offshore centres                       | 15,331                  | 32,515          | 23,870                          | 220,825                      | 3       | 292,544      | 259,027                          |
| - of which: Hong Kong                  | 8,627                   | 28,758          | 23,568                          | 197,085                      | 3       | 258,041      | 232,575                          |
| Developing Europe                      | -                       | -               | -                               | 23                           | -       | 23           | -                                |
| Developing Latin America and Caribbean | -                       | -               | -                               | 2                            | -       | 2            | -                                |
| Developing Africa and Middle East      | 93                      | -               | 26                              | 177                          | -       | 296          | 8                                |
| Developing Asia and Pacific            | 87,587                  | 31,083          | 30,976                          | 219,752                      | 3       | 369,401      | 251,802                          |
| - of which: China                      | 75,428                  | 30,005          | 29,930                          | 209,891                      | -       | 345,254      | 247,129                          |
| International organisations            | -                       | -               | 233                             | -                            | -       | 233          | -                                |
| Total                                  | 128,186                 | 69,249          | 59,513                          | 479,807                      | 12      | 736,767      | 545,782                          |

|                                           | 31/12/2015              |                 |                                 |                              |         |              |                     |                                  |
|-------------------------------------------|-------------------------|-----------------|---------------------------------|------------------------------|---------|--------------|---------------------|----------------------------------|
|                                           | Non-bank private sector |                 |                                 |                              |         |              | Of which:           |                                  |
|                                           | Banks                   | Official sector | Non-bank financial institutions | Non-financial private sector | Others  | Total Claims | Cross-border claims | Local claims (in all currencies) |
|                                           | HK\$ Mn                 | HK\$ Mn         | HK\$ Mn                         | HK\$ Mn                      | HK\$ Mn | HK\$ Mn      | HK\$ Mn             | HK\$ Mn                          |
| Counterparty country/<br>jurisdiction     |                         |                 |                                 |                              |         |              |                     |                                  |
| Developed countries                       | 28,334                  | 6,077           | 4,416                           | 32,787                       | -       | 71,614       | 39,280              | 32,334                           |
| Offshore centres                          | 12,606                  | 42,102          | 20,531                          | 215,979                      | 3       | 291,221      | 28,421              | 262,800                          |
| - of which: Hong Kong                     | 9,281                   | 35,297          | 19,917                          | 194,412                      | 3       | 258,910      | 23,394              | 235,516                          |
| Developing Europe                         | -                       | -               | -                               | 54                           | -       | 54           | 54                  | -                                |
| Developing Latin America<br>and Caribbean | -                       | -               | -                               | 184                          | -       | 184          | 184                 | -                                |
| Developing Africa and<br>Middle East      | 91                      | -               | 26                              | -                            | -       | 117          | 109                 | 8                                |
| Developing Asia and<br>Pacific            | 100,385                 | 32,630          | 30,215                          | 233,699                      | -       | 396,929      | 120,525             | 276,404                          |
| - of which: China                         | 89,081                  | 31,356          | 28,395                          | 223,628                      | -       | 372,460      | 102,882             | 269,578                          |
| International<br>organisations            | -                       | -               | -                               | -                            | -       | -            | -                   | -                                |
| Total                                     | 141,416                 | 80,809          | 55,188                          | 482,703                      | 3       | 760,119      | 188,573             | 571,546                          |

The above figures are disclosed according to the return of international banking statistics the Bank submitted to the HKMA pursuant to section 63 of the Banking Ordinance in respect of the interim reporting period, which are computed on the consolidated basis as required by the HKMA for its regulatory purposes.

#### 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:

| Type of counterparties                                                                                                                                 | 30/6/2016                       |                                  |         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------------------|---------|
|                                                                                                                                                        | On-balance<br>sheet<br>exposure | Off-balance<br>sheet<br>exposure | Total   |
|                                                                                                                                                        | HK\$ Mn                         | HK\$ Mn                          | HK\$ Mn |
| 1. Central government, central government-owned entities and their subsidiaries and joint ventures                                                     | 30,254                          | 5,925                            | 36,179  |
| 2. Local governments, local government-owned entities and their subsidiaries and joint ventures                                                        | 17,248                          | 743                              | 17,991  |
| 3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures                 | 152,221                         | 31,104                           | 183,325 |
| 4. Other entities of central government not reported in item 1 above                                                                                   | 3,860                           | 841                              | 4,701   |
| 5. Other entities of local governments not reported in item 2 above                                                                                    | 2,897                           | 50                               | 2,947   |
| 6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China | 6,112                           | 539                              | 6,651   |
| 7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures                        | 38,366                          | 2,739                            | 41,105  |
| Total                                                                                                                                                  | 250,958                         | 41,941                           | 292,899 |
| Total assets after provision                                                                                                                           | 706,655                         |                                  |         |
| On-balance sheet exposures as percentage of total assets                                                                                               | 35.5%                           |                                  |         |

|                                                                                                                                                        | 31/12/2015                      |                                  |         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------------------|---------|
|                                                                                                                                                        | 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                                                                                                                                                  | 254,308                         | 44,281                           | 298,589 |
| Total assets after provision                                                                                                                           | 737,558                         |                                  |         |
| 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 interim 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

|                                                                              | 30/6/2016    |                                  | 31/12/2015   |                                  |
|------------------------------------------------------------------------------|--------------|----------------------------------|--------------|----------------------------------|
|                                                                              | 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                                         | 845          | 0.2                              | 610          | 0.1                              |
| - 1 year or less but over 6 months                                           | 1,275        | 0.3                              | 1,535        | 0.4                              |
| - Over 1 year                                                                | 2,644        | 0.6                              | 1,934        | 0.4                              |
|                                                                              | <u>4,764</u> | <u>1.1</u>                       | <u>4,079</u> | <u>0.9</u>                       |
| Rescheduled advances to customers                                            | 89           | 0.0                              | 78           | 0.0                              |
| Total overdue and rescheduled advances                                       | <u>4,853</u> | <u>1.1</u>                       | <u>4,157</u> | <u>0.9</u>                       |
| Secured overdue advances                                                     | <u>3,995</u> | <u>0.9</u>                       | <u>3,597</u> | <u>0.8</u>                       |
| Unsecured overdue advances                                                   | <u>769</u>   | <u>0.2</u>                       | <u>482</u>   | <u>0.1</u>                       |
| Market value of security held against secured overdue advances               | <u>5,785</u> |                                  | <u>6,804</u> |                                  |
| Individual impairment allowance made on loans overdue for more than 3 months | <u>938</u>   |                                  | <u>799</u>   |                                  |

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

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

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

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

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

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

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

(b) Advances to banks

|                                        | 30/6/2016<br>HK\$ Mn | 31/12/2015<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                          | -                    | -                     |
|                                        | <u>-</u>             | <u>-</u>              |
| Rescheduled advances to banks          | -                    | -                     |
| Total overdue and rescheduled advances | <u>-</u>             | <u>-</u>              |

(c) Other overdue and rescheduled assets

|                                               | 30/6/2016                      |                               |                             |
|-----------------------------------------------|--------------------------------|-------------------------------|-----------------------------|
|                                               | Accrued<br>interest<br>HK\$ Mn | Debt<br>securities<br>HK\$ Mn | Other<br>assets*<br>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                           |
|                                               | <u>-</u>                       | <u>-</u>                      | <u>1</u>                    |
| Rescheduled assets                            | -                              | -                             | -                           |
| Total other overdue and rescheduled<br>assets | <u>-</u>                       | <u>-</u>                      | <u>1</u>                    |
|                                               | 31/12/2015                     |                               |                             |
|                                               | Accrued<br>interest<br>HK\$ Mn | Debt<br>securities<br>HK\$ Mn | Other<br>assets*<br>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                           |
|                                               | <u>-</u>                       | <u>-</u>                      | <u>1</u>                    |
| Rescheduled assets                            | -                              | -                             | -                           |
| Total other overdue and rescheduled<br>assets | <u>-</u>                       | <u>-</u>                      | <u>1</u>                    |

\* Other assets refer to trade bills and receivables.

(d) Repossessed assets

|                                   | 30/6/2016<br>HK\$ Mn | 31/12/2015<br>HK\$ Mn |
|-----------------------------------|----------------------|-----------------------|
| Reposessed land and buildings*    | 301                  | 317                   |
| Reposessed vehicles and equipment | 2                    | -                     |
| Reposessed machines               | 1                    | -                     |
| Total reposessed assets           | <u>304</u>           | <u>317</u>            |

The amount represents the estimated market value of the reposessed assets as at 30<sup>th</sup> June, 2016 and 31<sup>st</sup> December, 2015.

\* The balance included HK\$78 million (2015: HK\$7 million) relating to properties that were contracted for sale but not yet completed.

## F. Currency Concentrations

The net positions or net structural positions in foreign currencies are disclosed when each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies. The net option position is calculated in the basis of the delta-weighted position of option contracts.

| 30/6/2016                                |           |          |           |         |          |                          |
|------------------------------------------|-----------|----------|-----------|---------|----------|--------------------------|
|                                          | USD       | GBP      | RMB       | JPY     | SGD      | Other foreign currencies |
|                                          | HK\$ Mn   | HK\$ Mn  | HK\$ Mn   | HK\$ Mn | HK\$ Mn  | HK\$ Mn                  |
| Spot assets                              | 187,838   | 25,881   | 273,865   | 1,692   | 22,012   | 28,943                   |
| Spot liabilities                         | (171,798) | (18,223) | (262,553) | (1,285) | (25,336) | (28,538)                 |
| Forward purchases                        | 175,750   | 688      | 139,105   | 1,698   | 5,063    | 9,655                    |
| Forward sales                            | (193,841) | (8,265)  | (152,317) | (2,017) | (2,101)  | (10,004)                 |
| Net options position                     | (956)     | (11)     | 889       | (5)     | -        | 1                        |
| Net long/(short) non-structural position | (3,007)   | 70       | (1,011)   | 83      | (362)    | 57                       |

| 31/12/2015 (Restated)                    |           |          |           |         |          |                          |
|------------------------------------------|-----------|----------|-----------|---------|----------|--------------------------|
|                                          | USD       | GBP      | RMB       | JPY     | SGD      | Other foreign currencies |
|                                          | HK\$ Mn   | HK\$ Mn  | HK\$ Mn   | HK\$ Mn | HK\$ Mn  | HK\$ Mn                  |
| Spot assets                              | 167,551   | 28,260   | 301,093   | 1,335   | 22,505   | 26,147                   |
| Spot liabilities                         | (162,388) | (19,318) | (291,341) | (3,000) | (25,293) | (28,410)                 |
| Forward purchases                        | 149,048   | 150      | 117,610   | 4,190   | 4,429    | 8,469                    |
| Forward sales                            | (157,288) | (8,799)  | (128,386) | (2,430) | (2,221)  | (6,115)                  |
| Net options position                     | 92        | (1)      | (70)      | (4)     | -        | (8)                      |
| Net long/(short) non-structural position | (2,985)   | 292      | (1,094)   | 91      | (580)    | 83                       |

| 30/6/2016               |         |         |         |                          |
|-------------------------|---------|---------|---------|--------------------------|
|                         | USD     | RMB     | MYR     | Other foreign currencies |
|                         | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn                  |
| Net structural position | 2,175   | 13,422  | 2,264   | 938                      |

| 31/12/2015              |         |         |         |                          |
|-------------------------|---------|---------|---------|--------------------------|
|                         | USD     | RMB     | MYR     | Other foreign currencies |
|                         | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn                  |
| Net structural position | 2,168   | 12,287  | 2,123   | 925                      |

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 interim reporting period, which are computed on the consolidated basis as required by the HKMA for its regulatory purposes.

## **G. Leverage Ratio**

|                | 30/6/2016 | 31/12/2015 |
|----------------|-----------|------------|
|                | %         | %          |
| 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 24A of the Banking (Disclosure) Rules for this period 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**

|                                      | 30/6/2016 | 31/12/2015 |
|--------------------------------------|-----------|------------|
|                                      | %         | %          |
| Countercyclical Capital Buffer Ratio | 0.2       | -          |

The relevant disclosures pursuant to section 24B of the Banking (Disclosure) Rules for this period 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 was 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 ratios for calculating the Bank's buffer level are 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 ratios applicable to the Bank is 0.25% for 2016 and 0% for 2015.

## **INTERIM DIVIDEND**

The Directors are pleased to declare an interim dividend of HK\$0.28 per share (the “2016 Interim Dividend”) (2015 Interim Dividend: HK\$0.38 per share) for the six months ended 30<sup>th</sup> June, 2016. The 2016 Interim Dividend will be paid in cash with an option to receive new, fully paid shares in lieu of cash (the “Scrip Dividend Scheme”), to shareholders whose names appear on the Register of Members of the Bank at the close of business on Thursday, 8<sup>th</sup> September, 2016. The ex-dividend date for the 2016 Interim Dividend will be on Monday, 5<sup>th</sup> September, 2016. Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Thursday, 8<sup>th</sup> September, 2016. The Scrip Dividend Scheme is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Friday, 30<sup>th</sup> September, 2016.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Bank will be closed on Wednesday, 7<sup>th</sup> September, 2016 and Thursday, 8<sup>th</sup> September, 2016. In order to qualify for the 2016 Interim Dividend, all transfer documents should be lodged for registration with Tricor Standard Limited, Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, by 4:00 p.m. on Tuesday, 6<sup>th</sup> September, 2016.

## **FINANCIAL REVIEW**

### **Financial Performance**

Since February 2016, BEA, together with NWS Holdings Limited, has been carrying out a review of its strategic investment in Tricor Holdings Limited and its subsidiaries (collectively, the “Tricor Group”). The review considers strategic options including a possible sale of the entire interest in Tricor Group held by both BEA and NWS Holdings. Subsequently, a plan to sell the entire interest in Tricor Group has been initiated. Notwithstanding that a sale process is at an early stage and that the Bank has not entered into any agreement to sell its interest in Tricor Group, 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 first half of 2016 separately as discontinued operations in the consolidated income statement with comparative information re-presented. Tricor Group’s assets and liabilities as at 30<sup>th</sup> June, 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. Nevertheless, there can be no certainty about the outcome of the sale process referred to: it may or may not result in a sale being concluded.

For the first six months of 2016, the Group achieved a profit attributable to owners of the parent of HK\$2,095 million, representing a decrease of HK\$1,259 million or 37.5%, compared with the HK\$3,354 million earned in the same period in 2015. Profit attributable to owners of the parent from continuing operations and discontinued operations respectively amounted to HK\$1,981 million and HK\$114 million, representing a decrease of HK\$1,261 million, or 38.9%, and an increase of HK\$2 million, or 0.8%, respectively as compared to the first half of 2015. Basic earnings per share from continuing operations fell from HK\$1.24 in 2015 to HK\$0.65 in 2016 while basic earnings per share from discontinued operations remained at HK\$0.04.

Annualised return on average assets and annualised return on average equity fell from 0.8% to 0.5%, and from 8.7% to 4.8%, respectively.

During the first six months of 2016, the Group’s net interest income from continuing operations decreased by HK\$700 million, or 11.3%, to HK\$5,483 million. Net interest margin narrowed from 1.71% to 1.59%, largely due to pressure on BEA China’s net interest margin, which decreased from 1.95% to 1.61%.

Net fee and commission income from continuing operations decreased by HK\$336 million, or 21.2%, to HK\$1,253 million. Commission income from credit cards grew, whereas securities and brokerage, trade finance, loans and guarantee, and retail banking services declined.

Net trading losses from continuing operations decreased by HK\$2 million, or 7.6%, to HK\$32 million. Overall, non-interest income from continuing operations decreased by 14.1% to HK\$1,647 million. Operating income from continuing operations decreased by 12.0% to HK\$7,130 million.

Total operating expenses from continuing operations rose by 0.5% to HK\$4,239 million. The cost-to-income ratio rose from 52.0% in the first half of 2015 to 59.4% in the first half of 2016.

Operating profit before impairment losses from continuing operations was HK\$2,891 million, a decrease of HK\$994 million, or 25.6%, when compared with the corresponding period in 2015.

With the worsening economic environment in Mainland China, impairment losses on loans and advances from continuing operations grew by 59.9% to HK\$1,241 million. As a result, the impaired loan ratio of the Group rose from 1.13% at the end of 2015 to 1.23% at the end of June 2016. BEA China's impaired loan ratio increased from 2.63% to 2.80% while BEA Hong Kong's impaired loan ratio rose from 0.34% to 0.49%.

Operating profit after impairment losses from continuing operations was HK\$1,650 million, a decrease of 46.9% or HK\$1,458 million.

Net profit on disposal of fixed assets from continuing operations included a net gain of HK\$782 million on certain properties in Mainland China. Associated land value-added tax and corporate income tax on the disposal, amounting to HK\$396 million, is included in Income Tax.

Valuation gains on investment properties from continuing operations decreased to HK\$45 million.

The Group shared after-tax profits from associates of HK\$192 million from continuing operations, a decrease of HK\$61 million, or 23.7% compared to the same period in 2015, mainly due to the weaker performance of a Malaysia-based associate and a Mainland China-based associate during the period under review.

After accounting for income taxes, profit after taxation from continuing operations fell to HK\$1,989 million, a decrease of 39.0% compared to HK\$3,260 million recorded in 2015.

## **Financial Position**

Total consolidated assets of the Group stood at HK\$756,571 million at the end of June 2016, a decrease of 3.2% over the HK\$781,364 million reported at the end of 2015.

Gross advances to customers rose by 1.7% to HK\$448,816 million and trade bills declined by 25.2% to HK\$14,616 million.

Available-for-sale financial assets increased by 18.5% to HK\$110,947 million, whereas trading assets increased by 22.9% to HK\$6,560 million.

Total deposits from customers fell by 2.3% to HK\$528,149 million. Demand deposits and current account balances decreased by HK\$5,631 million, or 7.7%, compared with the balance at year-end 2015. Savings deposits increased to HK\$117,904 million, a rise of 4.0%, while time deposits decreased by HK\$11,535 million, a decrease of 3.3%, when compared with the end of December 2015. Total deposit funds, comprising deposits from customers and all certificates of deposit issued, fell by 3.1% to HK\$559,899 million.

The loan-to-deposit ratio stood at 80.2% at the end of June 2016, 3.8 percentage points higher than the 76.4% reported at the end of 2015.

Total equity increased to HK\$87,035 million, up 1.6%.

The Group maintained healthy capital adequacy and liquidity positions at the end of June 2016. The total capital ratio, tier 1 ratio, and common equity tier 1 ratio were 17.4%, 14.0%, and 12.6% respectively, as at 30<sup>th</sup> June, 2016. The average liquidity coverage ratio for the quarter ended 30<sup>th</sup> June, 2016 was 141.2%, which was well above the statutory limit of 70% for the year 2016.

## **ECONOMIC OVERVIEW**

The global economy turned in a mixed performance during the first half of the year. The US economy grew at a slower pace compared to previous years. Meanwhile, the European and Chinese economies turned in disappointing performances. With weak external demand, Hong Kong's exports dropped by 3.9% in the first half of 2016.

Meanwhile, growth in the domestic economy slowed. Tourist spending remained weak, creating headwinds for the retail and restaurant sectors. This has adversely affected the employment market, pushing the unemployment rate slightly higher to 3.4% at the end of June. Residential property prices dropped by 3.3% in the first half of the year, with concerns about the employment market, expectations for an increase in interest rates, and increased housing supply affecting market sentiment. The resulting negative wealth effect, together with rising unemployment, undermined consumer confidence, leading to a fall in private consumption. Retail sales recorded a 10.5% decline year on year in the first half of 2016.

On the Mainland, exports continued to struggle as demand from European and Asian markets remained weak in the first half. Furthermore, production costs are continuing to rise, encouraging a shift of some export orders to other countries. Investment growth moderated, as China's deleveraging policies forced investors to be more selective. Consumer spending has also been weak, creating a knock-on effect for many domestic companies. The Central Bank cut the deposit reserve ratio by a further 25 basis points in the first half of 2016, helping to ward off a steeper decline in economic performance.

Following the historic referendum in June, the UK voted to leave the European Union, which sent shockwaves through financial markets worldwide and ushered in a period of economic and political uncertainty. Looking ahead, growth of the European economy will remain sluggish while the US economic recovery will continue at a slower pace. As a result, little change is expected in China's export fortunes. The Chinese government is expected to continue to address structural economic problems by restraining investment growth. As the stimulus measures introduced last year appear to be working, we expect the Central Bank to refrain from taking further measures unless the economy deteriorates. China's economy is likely to grow by 6.7% in 2016, with inflation remaining low at 2.0%.

In Hong Kong, meanwhile, GDP growth is forecast to average 0.5% for 2016, while the inflation rate will soften to 2.6%.

## **OPERATIONS REVIEW**

### **Business – Hong Kong**

As at 30<sup>th</sup> June, 2016, the aggregate value of all customer loans and trade bills of BEA in Hong Kong was 0.9% higher than at the end of 2015, despite the run off in trade bills. Customer loans increased by 3.0%, while customer deposits were up by 1.2% and debt investments rose by 26.1%.

### **Retail Banking**

During the first half of 2016, BEA's personal banking operations in Hong Kong performed well. Total operating income grew by 3.9% compared to the same period a year earlier, driven by a 7.0% increase in net interest income. This was the result of ongoing efforts to optimise the Bank's deposit mix and expand current and savings account balances, thereby reducing the cost of funding.

Customers exhibited a reduced appetite for investment products, in light of poor market conditions. To offset the loss in related income, increased focus was placed on selling insurance. Overall, net fee and commission income fell by 6.3% when compared to the same period last year.

On the lending side, retail loans increased compared to the end of 2015, despite weak local consumption and property prices. The Bank recorded a significant upturn in mortgage loan drawdowns following the launch of a fixed-rate plan. Meanwhile, the consumer loan balance recorded a double-digit rise during the period under review.

With economic uncertainty expected to continue in the second half of this year, cost containment is a top priority. A full review of the Bank's local branch and ATM network has been completed, and a programme is now in progress to optimise use of resources. Several branches in underperforming areas were consolidated or relocated in the first half of 2016, while new outlets were opened in prime locations including Pacific Place, Convention Plaza, and Plaza Hollywood. This rationalisation programme is expected to maximise network productivity within three years. Meanwhile, an operational efficiency drive has been started for personal banking products and services, aiming to further improve productivity and eliminate redundant processes. Together, these initiatives will enable the Bank to optimise network and human resources and serve customers more efficiently.

### **Corporate & Commercial Banking**

The situation became even more challenging for Corporate Banking in the first half of the year. Restrained loan demand from local and Mainland clients encouraged intense competition among lenders for quality assets. Margins were pressured, although the effect was mitigated by lower funding costs, and net interest income recorded an 8.4% decline as a result. Meanwhile, drops in trade bills and treasury product sales dragged net fee and commission income down. Overall, operating income fell by 24.7% compared to the same period in 2015.

The sudden devaluation of the RMB last August and sluggish economic environment thereafter led to defaults by a few clients, which were reported during the period under review. The impaired loan ratio edged upwards as a result, although it remained at a manageable level at the end of the first half.

Despite this slow start to the year, business began to pick up in the second quarter. Loan prepayments from Mainland corporates slowed, and certain big names returned to Hong Kong to refinance existing offshore debt and raise funds for business expansion and overseas acquisitions. In addition, Corporate Banking actively sought opportunities in the primary and secondary loan and bond markets. The holding of high-quality corporate notes and bonds increased, while the corporate loan portfolio rose by 4.2% in the first half.

Going forward, there are still good prospects for lending to Chinese borrowers, particularly for M&A purposes. With its strong Mainland presence and expertise in cross-border lending, BEA is in a unique position to leverage these opportunities.

### **Wealth Management**

After a strong period of market exuberance in the first half of 2015, Private Banking's performance has suffered in comparison so far this year, with operating income down by 16.5% year-on-year due primarily to the high base effect. Net fee and commission income was lower, while net interest income recorded an increase.

Private Banking's assets under management were 1.4% higher at the end of the period compared to the end of 2015. Demand for loans dropped on customer deleveraging and weak investor sentiment, and the loan balance declined as a result.

Facing volatile conditions, investors were cautious at the start of the year, holding cash or favouring defensive products such as bond funds and other fixed-income vehicles. The Bank's product offering was tailored to meet demand. Meanwhile, increased efforts were made to promote insurance products with premium financing, providing clients with protection for a smaller outlay of funds.

Volatility intensified following the UK's decision to leave the European Union in June. Global markets have since pared back their losses. However, policymakers remain cautious given political and social instability in Europe, the Middle East and the US. Central banks are therefore expected to extend their accommodative monetary policies, giving a boost to investor sentiment as the added liquidity drives up asset prices. As a result, customers are returning to the market, favouring safe assets and currencies.

Looking ahead, the upcoming launch of the Shenzhen-Hong Kong Stock Connect scheme will provide further opportunities for investors, and Hong Kong's equity markets should benefit due to the gradual devaluation of the RMB. The Bank is adjusting its product mix accordingly, and is well placed to capture business as investment sentiment recovers.

## **Insurance & MPF Services**

Given high levels of uncertainty and volatility in the investment market, insurance products with guaranteed returns have been favoured by risk-averse customers and investors seeking to diversify their asset allocation. Against this backdrop, BEA Life Limited, the Bank's wholly-owned life insurance arm, continued to see solid top-line growth in the first half of 2016. New premium income increased by 22.4% year on year, with strong sales of both short-term and long-term products.

Blue Cross (Asia-Pacific) Insurance Limited, BEA's wholly-owned general insurance arm, recorded a mild increase in premium income under a highly competitive market environment. In particular, group medical premium income grew at a healthy 3.3% year on year, as the company focused on retaining existing quality clients and further developing the SME segment.

Total membership of BEA's MPF schemes grew to 658,000 in the first half of 2016, while AUM increased by 5.3% to HK\$20.2 billion. Efforts to control costs are ongoing. A new efficiency drive was kicked off early this year, aiming to streamline operations and enhance productivity through job reallocation and workflow re-engineering.

## **Broking Operations**

In April 2016, BEA completed the disposal of Tung Shing Holdings Company Limited as part of its efforts to enhance resource management and streamline sales channels. Going forward, securities and brokerage services in Hong Kong will continue to be available to customers through the Bank's wholly-owned subsidiaries, East Asia Securities Company Limited and East Asia Futures Limited.

In June, EAS announced plans to close all 22 retail outlets in Hong Kong on 8<sup>th</sup> July, in view of the increasing popularity of electronic and phone trading platforms. More than 90% of EAS's securities transactions had already shifted to electronic and phone platforms, and the move will enable EAS to focus its efforts on further enhancing its digital platform and serving customers more efficiently.

Meanwhile, with an extensive branch network, the Bank will continue to provide securities services for its retail customers via integrated accounts, namely SupremeGold Account, Supreme Account, and iAccount.

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

Following the market volatility and sharp deceleration in economic activity experienced in 2015, operating conditions in Mainland China continued to be challenging in the first half of 2016. Growth in gross domestic product was 6.7% for the first half of 2016 while the consumer price index rose by 2.1%. A mini-stimulus restored some confidence in the first quarter by boosting credit and fixed asset investment, but subsequent pronouncements suggest that the government is unlikely to repeat such measures. Instead, it is prepared to accept an "L-shaped recovery", in which the quality of growth is given priority over its pace. Structural reform is positive for Mainland China's long-term development, but the risk of a prolonged balance sheet recession is not insignificant.

The banking sector in Mainland China continues to be challenged in this environment by slowing loan growth, compressed net interest margins, and increased default risk.

BEA China has not been immune to these trends. The Management maintained its conservative approach in the first half by reducing exposure to high risk sectors such as hotels, boarding houses, and catering; the wholesale and retail trade; and manufacturing. This resulted in a 2.3% half on half reduction in loans outstanding to HK\$146,539 million. Deposits were reduced by 8.7% half on half to HK\$183,705 million following the relaxation of the loan-to-deposit ratio cap.

The net interest margin in the first half of 2016 was 1.61%, similar to the 1.70% achieved in the second half of 2015. While yields on more conservative assets remained low, the cost of funding has now adjusted to the cuts made in 2015 by the People's Bank of China to its base interest rate. In addition, a Value Added Tax was implemented on 1<sup>st</sup> May, 2016, impacting two months' results. Tax will now be deducted from interest income rather than recorded in operating expenses, making net interest margins otherwise lower than previous comparable periods.

BEA China's non-performing loan ratio as at 30<sup>th</sup> June, 2016, was 2.80%, 17 basis points higher than as at 31<sup>st</sup> December, 2015. Given the reduction in assets, the increase was to a certain extent the result of a smaller denominator. In absolute terms, however, BEA China's balance of NPLs increased 3.9% half on half to HK\$4,104 million as at 30<sup>th</sup> June, 2016.

It is noted that most of BEA China's NPLs were extended in 2013 and in the first half of 2014. Reflecting the decision to change risk appetite, the asset quality of loans issued since the middle of 2014 has generally been much better.

Operating expenses (after exceptional items) stayed roughly constant thanks to controls initiated in 2015. However, as a result of the pressures on operations and asset quality described above, BEA China's net profit after tax for the first half of 2016 decreased by 55.6% year on year to HK\$240 million.

Since its establishment in 2007, BEA China has strived to develop a culture and platform necessary for long-term success. BEA China's vision is to be Mainland China's most localised foreign bank, offering quality products and services to meet the increasingly sophisticated financial needs of retail and corporate clients.

Without losing sight of this vision, BEA China is responding to its immediate challenges in a number of ways. First and foremost is cost control. BEA China has completed the sale of eight floors in the BEA Tower in Beijing during the period under review. The second half of this year will see BEA China focus on three fronts: rationalising its branch network by consolidating and relocating certain sub-branches and automatic teller machines; pursuing operational excellence by standardising, centralising, automating, and digitising its workflow; and realigning its business to create a regional structure, so as to pool branch resources and better coordinate client marketing.

In addition, BEA China will further optimise its asset and liability mix so as to alleviate pressure on net interest margins, particularly by seeking cheaper funding. Finally, measures to improve credit assessment and recovery will continue. While 94% of impaired loans are collateralised, the centralised credit approval process introduced in the fourth quarter of 2015 will ensure greater consistency and accountability going forward.

At the same time, BEA China has launched a range of initiatives to enhance revenues. BEA China is pursuing new opportunities for corporate lending in sectors such as utilities, pharmaceuticals, health, storage, and logistics. Treasury products are another promising area for growth. BEA China launched cross-currency swaps in 2016, and has made significant inroads into the onshore RMB options market.

Following the rapid increase in outward investment and offshore business, BEA China continued to reach out to corporate clients seeking cross-border products. In this regard, BEA China is able to offer use of BEA's global network, its outlets in the Pilot Free Trade Zones in Mainland China, and its strong relationships with BEA's strategic partners in Asia and Europe.

BEA China is also placing greater emphasis on retail banking as a source of higher yields. BEA China's credit card instalment loans reached HK\$3,646 million as at 30<sup>th</sup> June, 2016, a 27% year-on-year increase. In the future, BEA China also plans to target high net-worth customers with tailored wealth management solutions.

To this end, BEA China will continue to invest in its internet and mobile banking channels. These have already proven a successful way of reaching retail customers and streamlining the handling of product applications. BEA China is also pursuing partnerships within Mainland China's vibrant internet business community. These have the potential to offer transformational access to large communities of potential customers without the need for substantial fixed investment.

As at 30<sup>th</sup> June, 2016, BEA China's branch network consisted of 30 branches and 94 sub-branches in 44 cities across the country, offering customers one of the most extensive networks of any foreign bank in Mainland China.

## **BEA Macau and Taiwan**

The ongoing contraction in Macau's gambling industry resulted in a challenging operating environment for BEA Macau. Nonetheless, its efforts to target local professionals and high net-worth customers resulted in an over 65% year-on-year increase in the fee and commission income generated from this category of customers. To rationalise services, the Arieta Sub-branch was closed at the end of June 2016. Going forward, BEA Macau will continue to optimise its asset and liability structure, improve its net interest margin, and exercise stringent control on operating costs.

Facing slower cross-strait economic activity in the first half of 2016, BEA Taiwan focused lending on large-scale Mainland Chinese state-owned enterprises, large-scale Taiwanese companies, or other clients able to offer full security. In addition, BEA Taiwan successfully boosted its non-interest income by arranging syndicated loan facilities. BEA Taiwan intends to pursue these initiatives in the second half as well as to focus on cost control.

In addition, during the first half of 2016, the Bank disposed of its 100% interest in BEA Wealth Management Services (Taiwan) Limited and BEA Insurance Brokerage (Taiwan) Limited to SinoPac Securities Corporation. The transaction was completed on 28<sup>th</sup> March, 2016.

## **Business – International**

Singapore Branch continues to face strong headwinds, with slowing economic growth and a tough operating environment in the first half of 2016.

The Branch recorded a 12% decrease in loan portfolio from the end of last year, mainly due to a decline in China cross-border trade loans. To gain new business and sustain net interest margins, the Branch stepped up its Singapore dollar-denominated corporate debt securities investment programme, increasing its holdings by 107% from the prior year end. BEA will continue to focus on expanding its syndicated and bilateral corporate loan portfolio, as well as bond investments, especially among larger new-to-bank clients in the corporate and SME sectors.

While the outlook for the second half of 2016 remains uncertain, plans are under way to increase fee income by cross-selling and up-selling trade, treasury, deposit, and wealth management products. The Branch is also placing more emphasis on developing its retail banking business by re-organising the customer facing function, under the leadership of a dedicated business head from retail branch operations. This will enable higher levels of customer engagement, deepen customer relationships, and increase opportunities to improve the share of the customer's wallet managed by BEA.

Labuan Branch continued to deliver profit growth despite Malaysia's economic slowdown. The Branch remains focused on developing syndication and bilateral loan business in the region.

In the first half of 2016, the Bank's operations in the UK registered modest growth in loan assets and profitability.

The UK vote to leave the European Union has sent shockwaves across global financial markets. BEA is confident that its UK operations will be able to withstand the adverse impact arising from Brexit, given its prudent lending strategy and stringent underwriting criteria. However, the Bank expects that clients, especially property investors from Hong Kong and China, will take a more prudent approach toward new investments in the UK. As a result, BEA anticipates a possible slowdown in the business of its UK operations. The Bank will monitor the market closely and make adjustments to its business strategy accordingly.

In June 2016, the staff of BEA's London Branch completed their relocation back to the Bank's newly renovated premises at 75 Shaftesbury Avenue. BEA will celebrate the opening of the newly-renovated branch in October.

BEA's US operations recorded a solid performance in the first half of 2016. The combined loan assets of New York and Los Angeles branches reached a new high of US\$3.48 billion, up 31.8% from the end of 2015. Likewise, operating profit and net profit increased 70.8% and 14.6% year on year respectively. The impaired loan ratio further improved to 0.18% from 0.58% at the end of 2015.

The strong growth recorded by BEA's US branches during the first half of 2016 is due to the continuing domestic economic recovery; demand for property investment in gateway cities such as New York, San Francisco, and Los Angeles; and increased refinancing and merger and acquisition activities in the corporate and syndication markets.

The Bank's US operations will continue capitalising on the favourable market conditions to diversify and expand its portfolio, targeting high quality corporate and syndicated loans as well as commercial real estate financing.

Overall, BEA's international operations registered modest growth in loan assets from the end of 2015. Net profit slightly decreased by 3%, year on year, for the first half of 2016, mainly due to sluggish performance in Singapore and the depreciation of the pound sterling. Going forward, the Bank's international branches will continue to expand lending relationships with local enterprises and step up customer referral efforts and other forms of collaboration with the Bank's Head Office and BEA China to capture lending opportunities from large corporations that have outbound investments.

## **Other Subsidiaries**

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

Credit Gain Finance Company Limited reported satisfactory loan portfolio growth for the first half of 2016. Against the uncertain economic backdrop, Credit Gain will continue to focus on expanding its customer base, rolling out competitive marketing campaigns, enhancing service quality, and further strengthening risk management. As of 30<sup>th</sup> June, Credit Gain operated a total of 23 service outlets in Hong Kong, Shenzhen, and Chongqing.

### ***Tricor Holdings Limited***

Tricor reported record-high fee revenue of HK\$629 million for the first six months of the year, thus making a strong contribution to the BEA Group's fee and commission income. In May, Tricor acquired a 30% interest in a corporate services firm in Brisbane, Australia, whose name has subsequently been changed to Tricor Chew Pty. Ltd. The establishment of Tricor's first office in Australia has further enhanced the Company's servicing capabilities in the Asia-Pacific Region.

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

BEA Union Investment recorded a 10.5% increase in AUM in the first half of 2016. This growth was mainly due to the Company's success in penetrating both the retail and institutional sectors in Hong Kong and on the Mainland.

To cater to growing demand from retail investors for funds with income features, BEA Union Investment introduced the Global Flexi Allocation Fund in January and the China High Yield Income Fund in April for distribution in Hong Kong.

Looking ahead, BEA Union Investment will continue to broaden its product offering and work closely with BEA Trustees in preparation for the launch of the default investment strategy under the MPF system in 2017.

## **Our People**

As of 30th June, 2016, the BEA Group employed 12,840 people:

|                            |              |
|----------------------------|--------------|
| Hong Kong                  | 5,590        |
| Greater China ex-Hong Kong | 5,883        |
| Overseas                   | 1,367        |
| Total                      | <hr/> 12,840 |

There were no significant changes to the Group's remuneration policies and practices, bonus scheme, or training programmes during the period under review. A revised Staff Share Option Scheme was approved at the 2016 AGM in April. In early June, following extensive review of the Group's operations with a view to streamlining workflows and enhancing cost efficiency – and following a business realignment exercise conducted by East Asia Securities Company Limited – BEA reduced its manpower resources in Hong Kong. On the Mainland, BEA China imposed a headcount freeze to control costs, which resulted in a headcount reduction, while Credit Gain streamlined its operations in Chongqing in line with its business needs. The Group's overall headcount was further reduced during the period under review, half on half, by the sale of Tung Shing Holdings Company Limited and BEAWMS.

## **Future Prospects**

The business and operating environment is expected to remain challenging in the second half of 2016. Brexit will no doubt add to uncertainties in financial markets, and may affect inward investment into the UK and Europe.

BEA will maintain its focus on diversifying income sources and managing operating costs. In addition, BEA will continue to focus on acquiring customers in desired and profitable segments, while maximising opportunities generated through its unique network across Hong Kong, China and overseas operations. BEA will also continue to exercise stringent cost control by driving improvement of basic systems and processes as well as building a more productive and flexible workforce through training to enhance back-office efficiency and cost savings.

In Hong Kong, BEA will strive to maintain its position as the market leader in innovation and digitisation. The digital model will be further extended to cover more local branches. Digital transformation will enable the Bank to do more with less, driving long term cost benefits. In addition, the Bank will further develop innovative products and services as well as enhance retail wealth management operations, including insurance and investment products, to attract affluent customers in Hong Kong and wealthy Mainland Chinese. To cater for the needs of the market, BEA will further increase treasury activities and broaden product offerings.

On the Mainland, the Bank's long-term commitment to China remains intact. BEA China is in the midst of a branch network rationalisation programme, and plans to accelerate the development of mobile platforms with WeBank Co., Ltd. to capture digital and mobile banking opportunities. In addition, financial markets business and personal lending business will be further expanded. BEA China will also continue to invest selectively in new growth areas, in particular in emerging industries under the 13<sup>th</sup> Five Year Plan.

Outside Hong Kong and China, BEA will capture new revenue streams from emerging business opportunities in overseas countries. Business collaboration with the Hong Kong and China branches of BEA will be further expanded in order to further capitalise on BEA's unique Greater China platform.

While the challenging environment is likely to maintain for some time, BEA has a proven capability of adapting to difficult market conditions. The Bank has the experience, the established relationships and the determination to capture the growth opportunities ahead.

## **RISK MANAGEMENT**

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 below the Board. The Risk Committee consists of five independent non-executive directors (including the Chairman of the Committee) and two non-executive directors. The Risk Committee provides direct oversight over the formulation of the Group's institutional risk appetite, and sets the levels of risk that the Group is willing to undertake with regard 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 Crisis Management Committee, Risk Management Committee, and specialised risk management committees including the Credit Committee, Asset and Liability Management Committee, and Operational Risk Management Committee, at the executive level – and with overall coordination by the Risk Management Division – the Risk Committee regularly reviews the Group's risk management framework and ensures that all important risk-related tasks are performed according to established policies with appropriate resources.

To ensure that roles within the organisation are clearly defined in regard to risk management, BEA has adopted a "Three Lines of Defence" risk management structure. The first line of defence comprises the Bank's business units and functional units, which are responsible for the management of the risks that the units incur in the course of their activities. The Risk Management Division and Compliance Division provide independent oversight over the risk takers as the second line of defence. Reporting directly to the AC, the Bank's Internal Audit Division serves as the third line of defence. The Internal Audit Division assists the AC in its oversight of the Bank's overall risk management and internal control systems by conducting periodic reviews to assess the adequacy of the Bank's risk management framework, control, and governance processes as designed by the first and second lines of defence.

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

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

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

#### **(a) Credit risk management**

Credit risk arises from the possibility that a customer or counterparty in a transaction may default. Such risk may arise from counterparty risks from loans and advances, issuer risks from the securities business, and counterparty risks from trading activities.

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

different levels. Risk, return, and market situation are considered when setting all limits. Active limit monitoring is undertaken.

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

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

**(b) Market risk management**

Market risk refers to the risk of adverse price movements arising from all market risk-sensitive financial instruments, including debt securities, foreign exchange contracts, equity and derivative instruments, as well as from structured products. The aim in managing market risk is to reduce the Group's exposure to the volatility inherent in financial instruments.

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

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

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

**(i) Currency risk**

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

Structural foreign currency positions, which arise mainly from foreign currency investments in the Group's branches, subsidiaries, and associated companies, are excluded from "value-at-risk" measurements, as related gains or losses are taken to reserves. Such foreign currency positions are managed with the principal objective of ensuring that the Group's reserves are protected from exchange rate fluctuations. The Group seeks to match its foreign currency denominated assets closely with corresponding liabilities in the same currencies.

**(ii) Interest rate risk**

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

(iii) *Equity risk*

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

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

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

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

The Group estimates VaR for the Group's trading portfolio by the parametric approach, where the VaR is derived from the underlying variances and co-variances of the constituents of a portfolio. This methodology uses historical movements in market rates and prices, a 99% confidence level, a one-day holding period, and a one-year historical observation period. An equal or higher weighting scheme is applied to more recent observations under which higher VaR should be used.

Structural foreign exchange positions arising from net investments in branches and subsidiaries are not included in the VaR for the foreign exchange trading position.

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

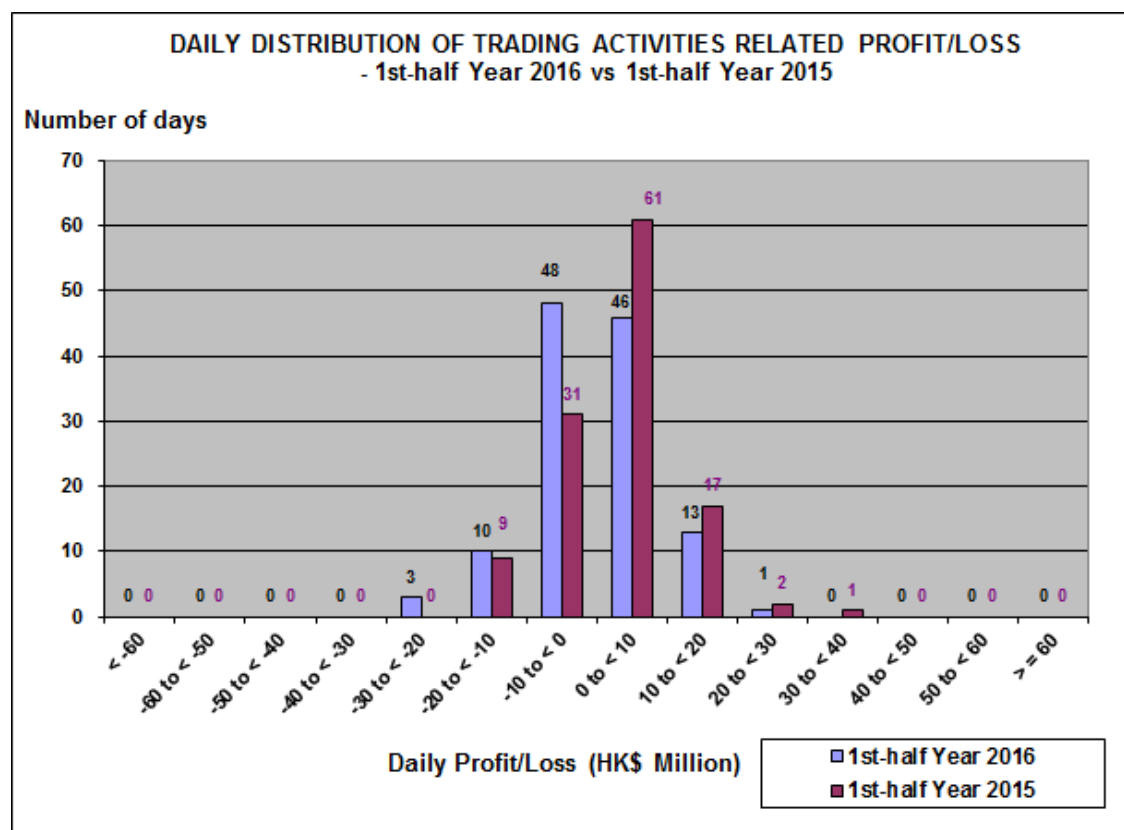
*Value-at-risk statistics*

|                                             | Year 2016 1 <sup>st</sup> half |                    |                    |                 |
|---------------------------------------------|--------------------------------|--------------------|--------------------|-----------------|
|                                             | At 30th June<br>HK\$ Mn        | Maximum<br>HK\$ Mn | Minimum<br>HK\$ Mn | Mean<br>HK\$ Mn |
| VaR for total trading activities            | 36                             | 45                 | 31                 | 38              |
| VaR for foreign exchange trading positions* | 12                             | 14                 | 8                  | 11              |
| VaR for interest rate trading positions     | 3                              | 7                  | 2                  | 4               |
| VaR for equity trading positions            | 25                             | 34                 | 23                 | 27              |

|                                             | Year 2015 1 <sup>st</sup> half |                    |                    |                 |
|---------------------------------------------|--------------------------------|--------------------|--------------------|-----------------|
|                                             | At 30th June<br>HK\$ Mn        | Maximum<br>HK\$ Mn | Minimum<br>HK\$ Mn | Mean<br>HK\$ Mn |
| VaR for total trading activities            | 35                             | 45                 | 22                 | 30              |
| VaR for foreign exchange trading positions* | 9                              | 14                 | 6                  | 9               |
| VaR for interest rate trading positions     | 4                              | 8                  | 3                  | 4               |
| VaR for equity trading positions            | 27                             | 32                 | 14                 | 21              |

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

The average daily profit for all trading activities (including foreign exchange, interest rate, and equity trading activities) in the first six months of 2016 was HK\$0.59 million (average daily profit of HK\$2.82 million in the first six months of 2015). The standard deviation of the daily profit/loss for the period was HK\$8.60 million (standard deviation of HK\$9.18 million for the same period in 2015). The frequency distribution of daily profit/loss is shown below:



**(c) Operational risk management**

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

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

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

The operational risk management tools adopted include operational risk incident reporting, risk control self-assessment, key risk indicators, operation manuals, insurance policies, business continuity planning, etc.

**(d) Liquidity risk management**

Liquidity pertains to the Group's ability to meet obligations as they fall due. Funding liquidity relates to the ability to meet expected and unexpected current and future cash flow and collateral needs without affecting daily operations or the financial position. Market liquidity concerns the inability to offset or eliminate a position at market price because of inadequate market depth or market disruption, or the access to financial resources at excessive cost.

The purpose of liquidity risk management is to ensure sufficient cash flows to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity coverage ratio, and to make new loans and investments as opportunities arise.

The Asset and Liability Management Committee is delegated by the Board to oversee the Group's liquidity risk management. The Asset and Liability Management Committee sets the strategy, policy, and limits for managing liquidity risk and the means for ensuring that such strategy and policy are implemented. Regular meetings are held to review the compliance status of the monitoring matrix established and the need for any change in strategy and policy.

Liquidity is managed daily by the Capital Markets & Liquidity Management Department under the Treasury Markets Division of the Group within the set limits. The Asset & Liability Management Department under the Risk Management Division of the Group is responsible for monitoring the activities relating to liquidity risk. The Internal Audit Division performs periodic reviews to ensure that the liquidity risk management functions are carried out effectively.

The LCR, which came into effect on 1<sup>st</sup> January, 2015, imposes a more stringent regulatory regime for liquidity risk management on the Group. Banking (Liquidity) Rules require the Group to meet the minimum LCR by 2019. During the transitional period, the percentage will increase from 60% in 2015 to 100% in 2019, with 10% added to the regulatory requirement each year from 2016. To ensure compliance with the enhanced regulatory requirement, material changes in the LCR will be reported regularly to the Asset and Liability Management Committee together with proposed mitigation actions to cope with adverse changes arising from, but not limited to, composition of the deposit base and remaining tenor to maturity, short-term lending activities, and the Group's asset and liability mix strategy. An internal LCR target has been established to maintain the ratio within a suitable range. In planning the asset and liability mix strategy, the Group assesses the impact of asset growth and funding structure on the LCR with support from relevant business units for the Asset and Liability Management Committee's review and decision.

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

Internally, intra-group funding transactions are carried out at arm's length and treated in a manner in line with other third party transactions, with regular monitoring and appropriate control.

In addition to observing the statutory LCR, the Group has established different liquidity metrics – including but not limited to the loan-to-deposit ratio, cumulative mismatch ratio, funding concentration ratio, intra-group exposure threshold, and cross currency funding ratio – to measure and analyse the Group's liquidity risks.

As a majority of the Group's liquidity risk arises from the maturity mismatch gap between the Group's asset and liability portfolios, the Group manages liquidity risk by conducting cash flow analysis and projections through the regular use of the Bank's management information system. These are carried out on a regular basis to identify funding needs arising from on and off-balance sheet items in a specific time frame over a set of time horizons. The Group maintains sufficient liquid assets as a liquidity cushion that can be accessed in times of stress. The high quality liquid assets for fulfilling the LCR consist of cash, short term funds, exchange fund bills, and notes. The majority of high quality liquid assets are denominated in Hong Kong dollars. Contingent funding sources are maintained to provide strategic liquidity to meet unexpected and material cash outflows.

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

With reference to the stress-testing results, the Group identifies potential vulnerabilities within the Group and formulates a Contingency Funding Policy and a Contingency Funding Plan that set out the Group's strategy for dealing with any liquidity problem and the procedures for making up cash flow deficits in emergency situations.

The Contingency Funding Policy and Contingency Funding Plan are designed to be pro-active and pre-emptive, and stipulate the following three stages:

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

An annual drill test is conducted and the Contingency Funding Policy and Contingency Funding Plan are subject to regular review in order to accommodate any changes in the business environment. Any significant changes to the Contingency Funding Policy and Contingency Funding Plan are approved by the Board and the Asset and Liability Management Committee, respectively.

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

In the first half of 2016, BEA issued floating rate certificates of deposit and debt securities with a face value of USD20 million; fixed rate certificates of deposit and debt securities with a face value of HKD2,720 million, USD690 million, CNY800 million, GBP150 million and SGD50 million; and zero coupon certificates of deposit and debt securities with a face value of HKD1,963 million, USD1,337 million, GBP36 million and EUR71 million. The Group redeemed a quantity of certificates of deposit and debt securities amounting to HKD35,694 million equivalent upon maturity.

At the end of June 2016, the face value of the outstanding certificates of deposit and debt securities issued was equivalent to HKD39,808 million, with a carrying amount equivalent to HKD39,743 million.

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

As at 30<sup>th</sup> June, 2016

(All expressed in millions of dollars)

|                                                                                               | <b>Total Face<br/>Value</b> | <b>Year of Maturity</b> |               |             |             |
|-----------------------------------------------------------------------------------------------|-----------------------------|-------------------------|---------------|-------------|-------------|
|                                                                                               |                             | <b>2016</b>             | <b>2017</b>   | <b>2018</b> | <b>2019</b> |
| <b>Floating Rate</b>                                                                          |                             |                         |               |             |             |
| HKD                                                                                           | 730                         | 430                     | 300           |             |             |
| USD                                                                                           | 330                         | 260                     | 70            |             |             |
| <b>Fixed Rate (Note)</b>                                                                      |                             |                         |               |             |             |
| HKD                                                                                           | 6,429                       | 2,145                   | 3,301         | 683         | 300         |
| USD                                                                                           | 1,595                       | 285                     | 1,275         | 35          |             |
| CNY                                                                                           | 750                         | 550                     | 200           |             |             |
| SGD                                                                                           | 100                         |                         | 100           |             |             |
| <b>Zero Coupon</b>                                                                            |                             |                         |               |             |             |
| HKD                                                                                           | 2,525                       | 1,525                   | 1,000         |             |             |
| USD                                                                                           | 1,653                       | 905                     | 748           |             |             |
| CNY                                                                                           | 255                         |                         | 255           |             |             |
| EUR                                                                                           | 71                          | 71                      |               |             |             |
| <b>Total Certificates of<br/>Deposit and Debt<br/>Securities issued in HKD<br/>equivalent</b> | <b>39,808</b>               | <b>16,604</b>           | <b>21,949</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.

At the end of June 2016, the face value of the outstanding loan capital issued was equivalent to HKD17,010 million, with a carrying amount equivalent to HKD17,476 million.

### Maturity Profile of Loan Capital

As at 30<sup>th</sup> June, 2016

(All expressed in millions of dollars)

|                                                        | <b>Total Face<br/>Value</b> | <b>Year of Maturity</b> |              |              |
|--------------------------------------------------------|-----------------------------|-------------------------|--------------|--------------|
|                                                        |                             | <b>2020</b>             | <b>2022</b>  | <b>2024</b>  |
| USD (Notes 1 & 2)                                      | 1,600                       | 600                     | 500          | 500          |
| SGD (Note 3)                                           | 800                         |                         | 800          |              |
| <b>Total Loan Capital issued<br/>in HKD equivalent</b> | <b>17,010</b>               | <b>4,655</b>            | <b>8,475</b> | <b>3,880</b> |

Notes:

1. The USD500 million loan capital that matures in 2022 will be callable on 4<sup>th</sup> May, 2017.
2. The USD500 million loan capital that matures in 2024 will be callable on 20<sup>th</sup> November, 2019.
3. Callable on 13<sup>th</sup> September, 2017.

#### (e) Interest rate risk management

Interest rate risk is the risk of negative impact on the Group's earnings or economic value due to adverse movements in interest rates. The Asset and Liability Management Committee is delegated by the Board to oversee the Group's interest rate risk management, establish the strategy and policy for managing interest rate risk, and determine the means for ensuring that such strategies and policies are implemented. Interest rate risk is managed daily by the Treasury Markets Division of the Group within the limits approved by the Board or the Asset and Liability Management Committee. The Asset & Liability Management Department under the Risk Management Division of the Group is responsible for monitoring the activities relating to interest

rate risk. The Internal Audit Division performs periodic reviews to ensure that the interest rate risk management functions are implemented effectively.

Interest rate risk primarily results from the timing differences in the re-pricing of interest-bearing assets, liabilities, and off-balance sheet items in the banking book. It also relates to positions from non-interest bearing liabilities and certain fixed-rate loans and liabilities. In determining the level of interest rate risk, re-pricing risk, basis risk, options risk, and yield curve risk components are assessed. The Group manages the interest rate risk on the banking book primarily by focusing on re-pricing mismatches. Gap analysis provides a static view of the maturity and re-pricing characteristics of the Group's assets, liabilities, and off-balance sheet positions. Re-pricing gap limits are set to control the Group's interest rate risk.

Sensitivity analysis in relation to the impact of changes in interest rates on earnings and economic value is assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on the Group's assets, liabilities, and off-balance sheet positions and is performed on a monthly basis. Sensitivity limits are set to control the Group's interest rate risk exposure under both earnings and economic value perspectives. The results are reported to the Asset and Liability Management Committee on a regular basis.

**(f) Strategic risk management**

The objective of strategic risk management is to monitor the risk to earnings or capital arising from bad business decisions or from an improper implementation of good business decisions.

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

The Group regularly generates portfolio projections to ensure optimal asset allocation to diversify risk and achieve returns that are commensurate with the risks taken. Capital management through projection of the Capital Adequacy Ratio and Internal Capital Adequacy Assessment Process is also regularly conducted to assess the level of capital resources needed to support the risks that the Group tolerates.

**(g) Legal risk management**

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

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

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

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

**(h) Reputation risk management**

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

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

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

The Group formulates, and adheres to, the Reputation Risk Management Manual, which outlines a systematic approach to the management of reputation risk, including a framework for reputation risk identification, assessment, monitoring, mitigation, and control, thereby protecting and enhancing the reputation of the Bank Group. The Guidelines for Incident Response and Management are also established for swift response to and management of unexpected incidents.

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

**(i) Money laundering and terrorist financing risk management**

Money laundering and terrorist financing risk is the risk arising from the use of the financial services provided by the Group:

- (i) To conceal or disguise the nature or source of proceeds derived from illegal activities; or
- (ii) To obscure or disguise links between terrorists/terrorist organisations and their funding sources, regardless of whether the funds are from legitimate or illegitimate sources.

Failure to prevent or deter the above-mentioned activities may result in fines and sanctions by regulators or damage to the reputation of the Group.

To manage money laundering and terrorist financing risk, the Group has established a Group Policy and relevant Guidelines on Anti-Money Laundering and Counter-Terrorist Financing, which set forth the governing principles and minimum standards that protect Group members and their businesses from being used to facilitate money laundering and terrorist financing.

The Institutional Risk Assessment on money laundering and terrorist financing is established to identify, assess, and understand the money laundering and terrorist financing risk exposure of the Group, through individual assessment conducted by Group members. The Institutional Risk Assessment helps determine the residual risk that the Group is exposed to, after taking into consideration the inherent risks identified and the effectiveness of the existing control measures.

**(j) Technology risk management**

Technology risk (including cybersecurity risk and e-banking risk) is the risk of loss resulting from inadequate or faulty technical processes, people and computing systems; or unauthorised access or disruption to technology resources.

The Group has established a technology risk management framework, which is supported by comprehensive control policies, standards, guidelines, and procedures.

Control measures relating to the security of internet systems and applications, customer authentication, risk assessment for new products and services, and confidentiality and integrity of information are adopted.

The Operational Risk Management Committee is responsible for overseeing the technology risk-related issues of the Group.

## **CORPORATE SOCIAL RESPONSIBILITY**

Environmental protection was a key focus of the BEA Group's CSR programme during the first half of 2016.

In April, BEA signed the Charter on External Lighting launched by the Hong Kong SAR Government's Environment Bureau in support of efforts to reduce light pollution and energy wastage. As a signatory, the Bank has pledged to turn off decorative and advertising lighting installations at selected branches and offices at 11:00 p.m. every evening. For the eighth consecutive year, the BEA Group participated in the World Wide Fund for Nature's "Earth Hour" by switching off all non-essential lighting for one hour to show our support for efforts to combat climate change.

The BEA Volunteer Team actively supported environmental protection efforts in Hong Kong during the period under review. Volunteers participated in three coastal clean-ups organised by WWF-Hong Kong and helped remove invasive Mikania vines at the Mai Po Nature Reserve.

On the operations side, BEA incorporated environmental concerns into branch and SupremeGold Centre renovation work by installing energy-saving equipment.

In June, the Group issued its fourth GRI-adherent CSR report. In response to stakeholder feedback and in support of efforts to reduce paper consumption, BEA chose to issue its report in softcopy form only. The report may be accessed via the Bank's homepage at [www.hkbea.com](http://www.hkbea.com) (About BEA / Corporate Social Responsibility).

In support of the Government initiative to improve financial literacy in Hong Kong, the Bank arranged financial education lessons in May for primary school students participating in the "High Five" Club. The programme was jointly supported by The Bank of East Asia Charitable Foundation and St. James' Settlement. In addition, the Bank held a financial education workshop for low-income families, which was jointly organised by the Hong Kong Association of Banks and Baptist Oi Kwan Social Service.

To assist the Hong Kong Red Cross in its efforts to increase blood collection capacity to meet future needs, the Bank donated a total of HK\$5 million from 2011 to 2013 for the establishment of a state-of-the-art blood donor centre located at the HKRC's new headquarters. The West Kowloon Blood Donor Centre was officially opened in March 2016. To mark the opening of the Donor Centre, BEA organised a blood drive at BEA Tower and HKRC blood donor centres throughout Hong Kong in March and April.

During the period under review, BEA continued to support a wide range of events and programmes organised by The Salvation Army Hong Kong and Macau Command, the Hospital Authority, and others in support of health and social welfare. In February, BEA served as title sponsor of The Community Chest BEA Charity Golf Day 2016 in Fanling. More than HK\$2.3 million was raised through the event, which was donated to benefit people suffering from mental health issues.

In the first half of 2016, the Bank supported a number of educational and cultural programmes including the 2016 Children Storytelling Competition organised by the Boys' and Girls' Clubs Association of Hong Kong and Le French May Arts Festival.

On the Mainland, BEA China organised the "Happy Year of the Monkey" charity campaign in January and February 2016 in 14 cities nationwide. Nearly 160 volunteers contributed over 780 hours of service visiting elderly centres, Firefly Centres, social welfare centres, and other locations. The volunteers distributed food and other daily necessities to recipients in celebration of the Lunar New Year.

From March to May 2016, more than 680 volunteers participated in the "Protect Every Tree and Bush" campaign in 21 cities nationwide to promote the importance of environmental protection. Various activities were organised including visits to ecological farms and forest parks, and seminars on geponics and potting. The volunteers also planted more than 760 saplings.

In April, BEA China issued its eighth CSR report, covering the year 2015. The report provides information on BEA China's progress and achievements in regard to community investment. In May, 15 staff members of BEA China conducted a 3-day teaching programme for the students of Jianguo Primary School in Harbin, Heilongjiang Province. Volunteers provided 45 hours of teaching on a wide

range of subjects, including English, environmental protection, geography, paper-cutting, and calligraphy.

In January 2016, BEA's Macau Branch participated in the "Laisee Packets Recycling and Reuse Campaign" jointly organised by the Civic and Municipal Affairs Bureau of Macau and the Macau Free Cycle Association. Approximately 3,300 discarded laisee packets were collected from Branch staff members and delivered to IACM for distribution to the general public.

In May 2016, Macau Branch participated in the "Macau Famine", organised by World Vision of Macau Association. For the third consecutive year, staff members of Macau Branch supported World Vision's worldwide food security and development projects by raising funds through various activities.

In March 2016, New York Branch volunteers visited fifth grade students at Public Primary School #204 in Bensonhurst Brooklyn to introduce banking services and the virtues of saving money. In April, staff members of BEA's New York Branch and their families participated in "KIDS WALK", a charity walk organised in support of children with cancer at the Memorial Sloan Kettering Cancer Center. Funds raised from the event will be used in support of research to find more effective and less toxic treatments for children suffering from cancer.

Turning to BEA subsidiaries, in January, Blue Cross participated in the "PHAB Walk for Integration 2015/2016", organised by the Hong Kong PHAB Association at the scenic Ma On Shan Promenade. This is the fourth time that the Company has supported this event, which raises funds in support of rehabilitation as well as elderly and youth services, and promotes the concept of social integration among members of the general public.

For the fifth consecutive year, Blue Cross sponsored the "Happy Teens, Full of Fun Programme" organised by the Hong Kong PHAB Association. The Programme provides an interactive platform with an array of individual development programmes for both able-bodied and disabled teenagers to equip themselves for future challenges in life.

Tricor Services Limited in Hong Kong established its own staff volunteer team in March, which kicked off its volunteer programme by visiting elderly residents of the Caritas Ngau Tau Kok Elderly Home. In April, Tricor Hong Kong raised money through the "Kiss Mama Cookies Sales" in support of the Salvation Army's services for families with special needs children. Tricor Hong Kong also organised a collection of over 18,000 laisee packets following the Lunar New Year, which were recycled by Greeners Action.

During the period under review, representatives of Tricor Thailand visited sick children at the Chulalongkorn Hospital and made a donation to the hospital's paediatric ward. In addition, staff members visited the Thai Blind People's Foundation and donated 40 used computers to the centre. In March, Tricor UK supported a number of charitable activities, including "Wear a Hat Day 2016" organised by Brain Tumour Research.

## **RECOGNITION**

During the first six months of 2016, the Bank received a number of awards in recognition of its achievements. These included:

- "2016 Best SME's Partner Award" (for the ninth consecutive year) from The Hong Kong General Chamber of Small and Medium Business;
- "Quamnet Outstanding Enterprise Award 2015 - Outstanding SME Service Provider (Bank)" (for the third consecutive year) from Quam (H.K.) Limited;
- "Outstanding Corporate Banking Services Award 2015" (for the third consecutive year) and "Outstanding Corporate Banking Renminbi Services Award" (for the third consecutive year) from Wen Wei Po;
- "Best FinTech Grand Award", "Best FinTech (Banking and Insurance) Gold Award", and "Best Mobile Apps (Consumer Solutions) Gold Award" in Hong Kong ICT Awards 2016;
- "e-Banking – Excellence" and "Digital Innovation - Outstanding Performance" in Bloomberg Businessweek Chinese Edition Financial Institution Awards 2016;
- "The Best Travel Card Programme Launched in 2015 in Hong Kong – BEA Flyer World MasterCard", "The Highest Growth of Open Cards in 2015 in Hong Kong – Winner", "The Highest Market Share of Contactless Spending in 2015 in Hong Kong", and "The Highest Market Share of Super Premium Card Spending in 2015 in Hong Kong – 2<sup>nd</sup> Runner Up" from MasterCard Worldwide; and

- “2015 Exclusive Year-round Promotion Platform” from UnionPay International.

In addition, The Bank of East Asia (China) Limited earned the following distinctions:

- “2015 China Internet Financial Innovation Award” (for BEA China’s Electronic Banking Business) from the Internet Society of China, Internet Finance Working Committee of ISC, China Electronic Finance Industry Alliance;
- “Best Wealth Management Bank” in the 2015 Shanghai Top Finance List from the *Oriental Morning Post* and *The Paper*;
- “Advanced Corporate Award” in the 2015 China Banking Industry Online Competition on the Knowledge of Consumer Rights Protection from the China Banking Association; and
- “Best Social Media Project” in The Asian Banker’s China Country Awards for 2016 from *The Asian Banker*.

Credit Gain Finance Company Limited also received recognition during the period under review, namely the:

- “Finance Service Award” in *Capital Weekly*’s 2016 Service Awards (for the fourth consecutive year).

BEA Union Investment received a number of awards in recognition of the performance of its funds.

For the BEA Union Investment Asian Bond and Currency Fund (for the fourth consecutive year):

- “Best Bond Fund, Asia Pacific, Local Currency” from Lipper Fund Awards Programme 2016 Hong Kong (for its 3-year performance);
- “Best of the Best Performance Awards 2015 – Asian Bonds” from Asia Asset Management (for its 3-year performance); and
- “2016/17 FSM Fund Picks – Fixed Income” from Fundsupermart.com.

For the BEA Union Investment Global Resources Fund:

- “2016/17 FSM Fund Picks – Global Resource Sector Equity” from Fundsupermart.com (for the third consecutive year).

During the period under review, BEA also received the following awards in recognition of its corporate social responsibility programme:

- “President’s Award” (for the 17<sup>th</sup> consecutive year), “Diamond Award” in the Corporate & Employee Contribution Programme 2015/2016 (for the 22<sup>nd</sup> consecutive year), “5<sup>th</sup> Top Fund Raiser Award” in the Dress Casual Day 2015 programme, and “4<sup>th</sup> Runner-up in the Top Fund-raiser Award” in the Hong Kong & Kowloon Walk 2015/2016 from The Community Chest of Hong Kong;
- Named “Caring Company” by the Hong Kong Council of Social Service (for the 13<sup>th</sup> consecutive year). Blue Cross, Credit Gain, and Tricor were named “Caring Company” for the eighth, sixth, and first year, respectively;
- “Community Engagement \*\*2 Stars Award” from the Senior Citizen Home Safety Association;
- Top Fundraising Award (Private Rice Stall) in the Oxfam Rice Sale 2016 from Oxfam Hong Kong;
- “Gold Award for Volunteer Service” from the Social Welfare Department’s Central Office for Volunteer Service in 2015 (for the third consecutive year);
- “Gold Award” (Website Stream and Mobile Application Stream) in the Web Accessibility Recognition Scheme co-organised by The Office of the Government Chief Information Officer and the Equal Opportunities Commission (for the second consecutive year);
- Named “Manpower Developer” (2016 – 2018) by the Employees Retraining Board;
- Indoor Air Quality Certificate (Good Class for BEA’s Head Office Building and 33 Des Voeux Road Central Building, and Excellent Class for BEA Tower);
- “Class of Excellence” in the Energywi\$e Label Scheme of the Hong Kong Awards for Environmental Excellence programme (for BEA’s Head Office Building and BEA Tower);
- “Class of Excellence” in the Wastewi\$e Label Scheme of the HKAEE programme (for BEA’s Head Office Building and BEA Tower); and
- Quality Water Supply Scheme for Buildings – Fresh Water (Plus) (Basic Plan) (for BEA’s Head Office Building and 33 Des Voeux Road Central Building).

BEA China received the “Outstanding Corporate Social Responsibility Award” (for the Firefly project) from the Shanghai Soong Ching Ling Foundation.

In addition to being named a “Caring Company” by HKCSS, Credit Gain and Tricor received the following recognition during the first half of 2016:

Credit Gain:

- “Caring Agency Award 2015 - One Star Certificate” from the Tsuen Wan and Kwai Tsing District Co-ordinating Committee on Elderly Services of the Social Welfare Department (for the third consecutive year).

Tricor:

- “Silver Award” (Website Stream) in the Web Accessibility Recognition Scheme co-organised by The Office of the Government Chief Information Officer and the Equal Opportunities Commission.

Tricor Services Limited and Tricor Greater China Limited were also named an ACCA Approved Employer – Trainee Development, Gold by the Association of Chartered Certified Accountants.

### **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 six months ended 30<sup>th</sup> June, 2016, the Bank bought back an aggregate principal amount of US\$6 million 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 six months ended 30<sup>th</sup> June, 2016.

### **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

The Group 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.

The Bank is constantly looking for ways to enhance the effectiveness of our corporate governance practices to ensure that they are in line with the requirements of relevant rules and regulations.

Throughout the accounting period for the six months ended 30<sup>th</sup> June, 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. The Bank has also followed the modules on CG-1 and CG-5.

The Bank has in place a corporate governance framework which sets out a range of governance principles and practices to direct and guide the business conducts and affairs of the Group.

Code Provision A.2.1 of the CG Code 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. After the conclusion of the 2016 AGM, out of the 18 Board members, 9 are INEDs. 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.

The Bank received confirmations from Directors that they have spent sufficient time performing their responsibilities as Directors of the Bank and have given sufficient time and attention to the Bank's affairs. All Directors (including any Directors, who were appointed, resigned or retired, during the six months ended 30<sup>th</sup> June, 2016) acknowledged that they have participated, from time to time, in continuous professional development to develop and refresh their knowledge and skills for carrying out their duties and responsibilities as Directors of the Bank.

The AC of the Bank has reviewed the results of the Bank for the six months ended 30<sup>th</sup> June, 2016 and the Bank's Interim Report 2016.

#### **COMPLIANCE WITH MODEL CODE**

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

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

Following specific enquiries by the Bank, all Directors (including any Directors, who were appointed, resigned or retired, during the six months ended 30<sup>th</sup> June, 2016) confirmed that they had complied with the required standard set out in the Model Code and the Bank's Policy at all the applicable time during the six months ended 30<sup>th</sup> June, 2016.

By order of the Board

**David LI Kwok-po**

*Chairman & Chief Executive*

Hong Kong, 19<sup>th</sup> August, 2016

*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. Kenneth LO Chin-ming\*\*, Mr. Stephen Charles LI Kwok-sze\*, Mr. William DOO Wai-hoi\*\*, Mr. KUOK Khoon-ean\*\*, Mr. Valiant CHEUNG Kin-piu\*\*, 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\* and Dr. the Hon. Rita FAN HSU Lai-tai\*\*.*

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

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

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

## GLOSSARY

### 詞彙

|                                                |                                                                                                                                                                                                                                                        |
|------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2016 AGM<br>「2016 股東周年常會」                      | an AGM of the Bank held in the Grand Ballroom, Four Seasons Hotel, 8 Finance Street, Hong Kong on Friday, 8 <sup>th</sup> April, 2016 at 11:30 a.m. or any adjournment thereof<br>本行於 2016 年 4 月 8 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                                                                                                                                                                                                     |
| ATM<br>「自動櫃員機」                                 | Automated Teller Machine<br>自動櫃員機                                                                                                                                                                                                                      |
| AUM<br>「管理資產」                                  | Assets under management<br>管理資產                                                                                                                                                                                                                        |
| Bank Group or BEA Group 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 / Macau Branch<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 Trustees<br>「東亞信託」                         | Bank of East Asia (Trustees) Limited, a wholly-owned subsidiary of the Bank<br>東亞銀行（信託）有限公司，本行的全資附屬公司                                                                                                                                                  |
| 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                                                                                                                                          |
| BEAWMS<br>「東亞證券股份」                             | BEA Wealth Management Services (Taiwan) Limited<br>東亞證券股份有限公司                                                                                                                                                                                          |
| Blue Cross<br>「藍十字」                            | Blue Cross (Asia-Pacific) Insurance Limited, a wholly-owned subsidiary of the Bank<br>藍十字(亞太)保險有限公司，本行的全資附屬公司                                                                                                                                          |
| 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 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》                      |
| 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, the lawful currency of Switzerland<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）                                                                                                   |
| Credit Gain<br>「領達財務」                                | Credit Gain Finance Company Limited, a wholly-owned subsidiary of the Bank<br>領達財務有限公司，本行的全資附屬公司                                                                                        |
| CSR<br>「企業社會責任」                                      | Corporate social responsibility<br>企業社會責任                                                                                                                                               |
| 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>包括任何擔任本行董事職位的人士（無論該人是以何職稱擔任該職位），或文義另有所指的人士 |
| EAS<br>「東亞證券」                                        | East Asia Securities Company Limited, a wholly-owned subsidiary of the Bank<br>東亞證券有限公司，本行的全資附屬公司                                                                                       |
| EUR<br>「歐羅」                                          | Euro<br>歐羅區法定貨幣                                                                                                                                                                         |
| 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                                                                                                                                                        |
| GRI<br>「全球報告倡議組織」                                    | Global Reporting Initiative<br>全球報告倡議組織                                                                                                                                                 |
| HK\$ or HKD<br>「港幣」                                  | Hong Kong dollar, the lawful currency of Hong Kong<br>香港法定貨幣                                                                                                                            |
| HKAS<br>「香港會計準則」                                     | Hong Kong Accounting Standards<br>香港會計準則                                                                                                                                                |

|                                  |                                                                                                                                                                               |
|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>HKEx</b><br>「香港交易所」           | <b>Hong Kong Exchanges and Clearing Limited</b><br>香港交易及結算所有限公司                                                                                                               |
| <b>HKFRS</b><br>「香港財務報告準則」       | <b>Hong Kong Financial Reporting Standards</b><br>香港財務報告準則                                                                                                                    |
| <b>HKICPA</b><br>「香港會計師公會」       | <b>Hong Kong Institute of Certified Public Accountants</b><br>香港會計師公會                                                                                                         |
| <b>HKMA</b><br>「金管局」             | <b>Hong Kong Monetary Authority</b><br>香港金融管理局                                                                                                                                |
| <b>HKRC</b><br>「香港紅十字會」          | <b>Hong Kong Red Cross</b><br>香港紅十字會                                                                                                                                          |
| <b>Hong Kong or HK</b><br>「香港」   | <b>Hong Kong Special Administrative Region of PRC</b><br>中華人民共和國香港特別行政區                                                                                                       |
| <b>HQLAs</b><br>「優質流動資產」         | <b>High quality liquid assets</b><br>優質流動資產                                                                                                                                   |
| <b>IACM</b><br>「澳門民政總署」          | <b>Civic and Municipal Affairs Bureau of Macau</b><br>澳門民政總署                                                                                                                  |
| <b>JPY</b><br>「日圓」               | <b>Japanese yen, the lawful currency of Japan</b><br>日本法定貨幣                                                                                                                   |
| <b>LCR</b><br>「流動性覆蓋比率」          | <b>Liquidity coverage ratio</b><br>流動性覆蓋比率                                                                                                                                    |
| <b>Listing Rules</b><br>「《上市規則》」 | <b>the Rules Governing the Listing of Securities on the Stock Exchange (as amended, modified or otherwise supplemented from time to time)</b><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 |
| <b>M&amp;A</b><br>「併購」           | <b>Mergers and acquisitions</b><br>合併與收購                                                                                                                                      |
| <b>Mn</b><br>「百萬」                | <b>Million</b><br>百萬                                                                                                                                                          |
| <b>MPF</b><br>「強積金」              | <b>Mandatory Provident Fund</b><br>強制性公積金                                                                                                                                     |
| <b>NPL</b><br>「不良貸款」             | <b>Non-performing loan</b><br>不良貸款                                                                                                                                            |
| <b>NWS Holdings</b><br>「新創建集團」   | <b>NWS Holdings Limited</b><br>新創建集團有限公司                                                                                                                                      |
| <b>OBS</b><br>「資產負債表外」           | <b>Off-balance sheet</b><br>資產負債表外                                                                                                                                            |
| <b>PHAB</b><br>「傷健」              | <b>Physically handicapped and able-bodied</b><br>傷殘與健全人士                                                                                                                      |
| <b>RQFII</b><br>「人民幣合格境外機構投資者」   | <b>Renminbi Qualified Foreign Institutional Investor</b><br>人民幣合格境外機構投資者                                                                                                      |

|                                          |                                                                                                       |
|------------------------------------------|-------------------------------------------------------------------------------------------------------|
| 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                                                   |
| SFO<br>「《證券及期貨條例》」                       | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)<br>《證券及期貨條例》（香港法例第 571 章） |
| SGD<br>「新加坡元」                            | Singapore dollar, the lawful currency of Singapore<br>新加坡法定貨幣                                         |
| SMEs<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             |
| TWD<br>「新台幣」                             | Taiwan dollar, the lawful currency of Taiwan<br>台灣法定貨幣                                                |
| 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                                         |
| VaR<br>「風險值」                             | value-at-risk<br>風險值                                                                                  |