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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 FINAL RESULTS SUMMARY OF RESULTS

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

Consolidated Income Statement

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

Consolidated Income Statement (Continued)

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

Consolidated Statement of Comprehensive Income

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

Consolidated Statement of Financial Position

		2016	2015
	Notes	HK\$ Mn	HK\$ Mn
ASSETS			
Cash and balances with banks and other financial institutions		65,720	69,122
Placements with banks and other financial institutions		44,052	80,828
Trade bills		11,939	19,532
Trading assets	15	4,404	5,335
Financial assets designated at fair value through profit or loss	16	3,554	4,336
Positive fair value of derivatives	21	8,938	6,205
Advances to customers and other accounts	17	489,520	473,088
Available-for-sale financial assets	18	110,491	93,595
Held-to-maturity investments	19	5,663	6,199
Investments in associates		6,011	5,763
Fixed assets		11,990	13,297
- Investment properties		4,467	4,891
- Other properties and equipment		7,523	8,406
Goodwill and intangible assets		2,639	3,883
Deferred tax assets		785	181
Total Assets		<u>765,706</u>	<u>781,364</u>
EQUITY AND LIABILITIES			
Deposits and balances of banks and other financial institutions		26,475	32,126
Deposits from customers		535,789	540,743
Trading liabilities		50	889
Negative fair value of derivatives	21	7,982	6,909
Certificates of deposit issued		28,857	37,277
- Designated at fair value through profit or loss		18,106	16,457
- At amortised cost		10,751	20,820
Current taxation		1,605	1,325
Debt securities issued		7,154	13,597
- Designated at fair value through profit or loss		418	2,539
- At amortised cost		6,736	11,058
Deferred tax liabilities		462	534
Other accounts and provisions		50,088	45,327
Loan capital – at amortised cost		20,608	16,996
Total Liabilities		<u>679,070</u>	<u>695,723</u>
Share capital	1(c)	35,490	33,815
Reserves	22	42,941	43,598
Total equity attributable to owners of the parent		78,431	77,413
Additional equity instruments		5,016	5,016
Non-controlling interests		3,189	3,212
Total Equity		<u>86,636</u>	<u>85,641</u>
Total Equity and Liabilities		<u>765,706</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 ⁴	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 st January, 2016	33,815	90	(162)	1,383	1,639	230	13,953	4,666	21,799	77,413	5,016	3,212	85,641
Changes in equity													
Profit for the year	-	-	-	-	-	-	-	-	3,723	3,723	-	106	3,829
Other comprehensive income	-	-	(2,113)	(24)	151	-	-	147	-	(1,839)	-	(31)	(1,870)
Total comprehensive income	-	-	(2,113)	(24)	151	-	-	147	3,723	1,884	-	75	1,959
Shares issued in lieu of dividend (Note 1(c))	1,663	-	-	-	-	-	-	-	-	1,663	-	-	1,663
Shares issued under Staff Share Option Schemes (Note 1(c))	11	-	-	-	-	-	-	-	-	11	-	-	11
Equity settled share-based transaction	-	35	-	-	-	-	-	-	-	35	-	-	35
Transfer	1	(1)	-	-	(62)	-	82	489	(509)	-	-	-	-
Dividends declared or approved during the year	-	-	-	-	-	-	-	-	(2,560)	(2,560)	-	(60)	(2,620)
Purchase of interests in businesses from non-controlling interests investors	-	-	-	-	-	-	-	(9)	-	(9)	-	7	(2)
Buy back of Hybrid Tier 1 capital instruments ¹	-	-	-	-	-	-	-	-	(6)	(6)	-	(45)	(51)
At 31 st December, 2016	35,490	124	(2,275)	1,359	1,728	230	14,035	5,293	22,447	78,431	5,016	3,189	86,636
At 1 st January, 2015	25,217	84	1,970	1,660	1,642	228	13,930	4,300	19,849	68,880	-	4,564	73,444
Changes in equity													
Profit for the year	-	-	-	-	-	-	-	-	5,522	5,522	-	116	5,638
Other comprehensive income	-	-	(2,132)	(277)	(3)	-	-	(59)	-	(2,471)	-	(25)	(2,496)
Total comprehensive income	-	-	(2,132)	(277)	(3)	-	-	(59)	5,522	3,051	-	91	3,142
Issue of additional equity instruments ²	-	-	-	-	-	-	-	-	-	-	5,016	-	5,016
Shares issued in lieu of dividend (Note 1(c))	1,856	-	-	-	-	-	-	-	-	1,856	-	-	1,856
Subscription of new shares (Note 1(c))	6,576	-	-	-	-	-	-	-	-	6,576	-	-	6,576
Shares issued under Staff Share Option Schemes (Note 1(c))	150	-	-	-	-	-	-	-	-	150	-	-	150
Equity settled share-based transaction	-	22	-	-	-	-	-	-	-	22	-	-	22
Transfer	16	(16)	-	-	-	2	23	425	(450)	-	-	-	-
Dividends declared or approved during the year	-	-	-	-	-	-	-	-	(2,911)	(2,911)	-	(82)	(2,993)
Buy back of Hybrid Tier 1 capital instruments ³	-	-	-	-	-	-	-	-	(211)	(211)	-	(1,361)	(1,572)
At 31 st December, 2015	33,815	90	(162)	1,383	1,639	230	13,953	4,666	21,799	77,413	5,016	3,212	85,641

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

Consolidated Cash Flow Statement

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

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

Notes to the Financial Statements

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

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

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

- (b) (i) The calculation of basic earnings per share is based on the consolidated profit for the year and profit from continuing operations attributable to owners of the parent of HK\$3,228 million and HK\$3,010 million (2015: HK\$4,991 million and HK\$4,774 million) respectively after the distribution of HK\$489 million (2015: HK\$320 million) to Hybrid/Additional Tier 1 issue holders and deduction of HK\$6 million (2015: HK\$211 million) premium paid to partial bought back/redemption of Hybrid Tier 1 capital instruments, and on the weighted average of 2,678 million (2015: 2,561 million) ordinary shares outstanding during the year.
- (ii) The calculation of diluted earnings per share is based on the consolidated profit for the year and profit from continuing operations attributable to owners of the parent of HK\$3,228 million and HK\$3,010 million (2015: HK\$4,991 million and HK\$4,774 million) respectively after the distribution of HK\$489 million (2015: HK\$320 million) to Hybrid/Additional Tier 1 issue holders and deduction of HK\$6 million (2015: HK\$211 million) premium paid to partial bought back/redemption of Hybrid Tier 1 capital instruments, and on 2,678 million (2015: 2,561 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

(c) Share capital

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

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

2. Dividends

(a) Dividends attributable to the year

	2016 HK\$ Mn	2015 HK\$ Mn
Interim dividend declared and paid of HK\$0.28 per share on 2,684 million shares (2015: HK\$0.38 per share on 2,617 million shares)	751	994
Second interim dividend paid in respect of the previous financial year on shares issued under the share option schemes subsequent to the end of the reporting period and before the close of the Register of Members of the Bank, of HK\$0.50 per share (2015: HK\$0.68 per share)	-	1
Second interim dividend of HK\$0.28 per share on 2,703 million shares (2015: HK\$0.50 per share on 2,641 million shares)	757	1,320
	<u>1,508</u>	<u>2,315</u>

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

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

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

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

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

3. Interest Income

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

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

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

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

4. Interest Expense

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

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

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

5. Fee and Commission Income

Fee and commission income arises from the following services:

	2016	2015 Restated
	HK\$ Mn	HK\$ Mn
CONTINUING OPERATIONS		
Credit cards	1,003	947
Loans, overdrafts and guarantees	733	861
Trade finance	338	481
Other retail banking services	324	353
Trust and other fiduciary activities	241	187
Securities and brokerage	215	449
Others	631	544
	<u>3,485</u>	<u>3,822</u>

of which:

Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss

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

6. Net Trading Profits

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

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

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

8. Net Hedging Loss

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

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

9. Net Insurance Revenue

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

10. Other Operating Income

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

11. Operating Expenses

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

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

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

13. Net Gain on Disposal of Fixed Assets

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

14. Income Tax

Taxation in the consolidated income statement represents:

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

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

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

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

15. Trading Assets

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

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

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

17. Advances to Customers and Other Accounts

(a) Advances to customers and other accounts

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

(b) Advances to customers – by industry sectors

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

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

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

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

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

(c) Advances to customers – by geographical areas

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

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

% of total advances to customers

1.49%

Market value of security held against impaired advances to customers

9,830

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

% of total advances to customers

1.13%

Market value of security held against impaired advances to customers

8,239

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

18. Available-for-Sale Financial Assets

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

19. Held-to-Maturity Investments

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

20. Segment Reporting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2016

	Hong Kong banking operations									Total reportable segments HK\$ Mn	Others HK\$ Mn	Inter-segment elimination HK\$ Mn	Total HK\$ Mn
	Personal banking	Corporate banking	Treasury markets	Wealth management	Financial institutions	Others	China operations	Overseas operations	Corporate Services (Note)				
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn				
CONTINUING OPERATIONS													
Net interest income/(expense)	2,864	2,120	(229)	348	19	268	4,109	1,292	-	10,791	308	(1)	11,098
Non-interest income/(expense)	849	328	76	443	15	625	830	159	-	3,325	781	(354)	3,752
Operating income	3,713	2,448	(153)	791	34	893	4,939	1,451	-	14,116	1,089	(355)	14,850
Operating expenses	(1,873)	(197)	(134)	(196)	(12)	(521)	(3,402)	(469)	-	(6,804)	(1,893)	355	(8,342)
Operating profit/(loss) before impairment losses	1,840	2,251	(287)	595	22	372	1,537	982	-	7,312	(804)	-	6,508
(Charge for)/Write back of impairment losses on loans and receivables	(230)	(306)	1	(2)	-	(27)	(2,815)	(83)	-	(3,462)	-	-	(3,462)
Impairment losses on available-for-sale financial assets	-	-	-	-	-	(1)	-	-	-	(1)	-	-	(1)
Operating profit/(loss) after impairment losses	1,610	1,945	(286)	593	22	344	(1,278)	899	-	3,849	(804)	-	3,045
Profit/(Loss) on sale of fixed assets, held-to-maturity investments, available-for-sale financial assets and repurchase of debt issued	(13)	16	68	-	-	1	889	(6)	-	955	-	-	955
Profit/(Loss) on sale of disposal groups and assets held for sale	-	-	-	-	-	-	(7)	-	-	(7)	106	-	99
Valuation gains on investment properties	-	-	-	-	-	-	-	1	-	1	61	-	62
Share of profits less losses of associates	-	-	-	-	-	(1)	141	291	-	431	-	-	431
Profit/(Loss) before taxation	1,597	1,961	(218)	593	22	344	(255)	1,185	-	5,229	(637)	-	4,592
Depreciation for the year	(59)	(1)	(6)	(2)	-	(17)	(213)	(20)	-	(318)	(150)	-	(468)
Segment assets	73,887	150,132	149,947	23,627	8,207	18,523	298,864	89,389	-	812,576	17,255	(72,642)	757,189
Investments in associates	-	-	-	-	-	49	1,166	4,796	-	6,011	-	-	6,011
Other assets – Assets held for sale	-	-	-	-	-	-	251	39	2,205	2,495	11	-	2,506
Total assets	73,887	150,132	149,947	23,627	8,207	18,572	300,281	94,224	2,205	821,082	17,266	(72,642)	765,706
Segment liabilities	291,835	922	62,725	21,308	6	14,756	252,746	78,074	-	722,372	2,066	(45,794)	678,644
Other liabilities – Liabilities held for sale	-	-	-	-	-	-	41	-	385	426	-	-	426
Total liabilities	291,835	922	62,725	21,308	6	14,756	252,787	78,074	385	722,798	2,066	(45,794)	679,070
Capital expenditure incurred during the year	100	1	30	4	-	22	77	43	30	307	141	-	448

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

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

21. Off-balance Sheet Exposures

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

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

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

* *The Bank adopted the Foundation Internal Ratings Based approach according to Banking (Capital) Rules for calculating the credit risk weighted amount as at 31st December, 2016 and 31st December, 2015.*

22. Reserves

	2016	2015
	HK\$ Mn	HK\$ Mn
General reserve	14,035	13,953
Revaluation reserve on bank premises	1,728	1,639
Investment revaluation reserve	1,359	1,383
Exchange revaluation reserve	(2,275)	(162)
Other reserves	5,647	4,986
Retained profits*	22,447	21,799
	<u>42,941</u>	<u>43,598</u>
Dividends declared, not provided for	<u>757</u>	<u>1,320</u>

* A regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances and investments in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the HKMA. As at 31st December, 2016, HK\$4,372 million (31st December, 2015: HK\$5,269 million) was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the HKMA.

23. Non-adjusting events after the reporting period

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

24. Comparative Figures

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

25. Discontinued Operations and Assets Held for Sale

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

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

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

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

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

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

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

Disposal group held for sale as at 31st December 2015

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

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

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

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

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

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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(A) Capital Adequacy

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

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

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

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

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

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

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

B. Liquidity Position

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

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

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

C. International Claims

The information on international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any recognised risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only countries constituting 10% or more of the aggregate international claims after taking into account any recognised risk transfer are disclosed.

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

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

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

D. Mainland Activities

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

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

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

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

E. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

	2016		2015	
	HK\$ Mn	% of total advances to customers	HK\$ Mn	% of total advances to customers
Advances to customers overdue for				
- 6 months or less but over 3 months	455	0.1	610	0.1
- 1 year or less but over 6 months	1,009	0.2	1,535	0.4
- Over 1 year	2,725	0.6	1,934	0.4
	<u>4,189</u>	<u>0.9</u>	<u>4,079</u>	<u>0.9</u>
Rescheduled advances to customers	<u>107</u>	<u>0.0</u>	<u>78</u>	<u>0.0</u>
Total overdue and rescheduled advances	<u>4,296</u>	<u>0.9</u>	<u>4,157</u>	<u>0.9</u>
Secured overdue advances	<u>2,907</u>	<u>0.6</u>	<u>3,597</u>	<u>0.8</u>
Unsecured overdue advances	<u>1,282</u>	<u>0.3</u>	<u>482</u>	<u>0.1</u>
Market value of security held against secured overdue advances	<u>5,678</u>		<u>6,804</u>	
Individual impairment allowance made on loans overdue for more than 3 months	<u>1,510</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 year-end. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at year-end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

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

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

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

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

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

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

(b) Advances to banks

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

(c) Other overdue and rescheduled assets

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

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

* Other assets refer to trade bills and receivables.

(d) Repossessed assets

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

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

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

F. Currency Concentrations

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

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

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

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

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

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

G. Leverage Ratio

	<u>2016</u>	<u>2015</u>
	%	%
Leverage ratio	8.8	8.3

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

H. Countercyclical Capital Buffer Ratio

	<u>2016</u>	<u>2015</u>
	%	%
Countercyclical capital buffer ratio	0.243	-

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

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

I. Capital Conservation Buffer Ratio

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

J. Higher Loss Absorbency Ratio

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

STATEMENT OF COMPLIANCE

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

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

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

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

PAYMENT OF SECOND INTERIM DIVIDEND FOR 2016

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

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

CLOSURE OF REGISTER OF MEMBERS

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

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

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

On 7th 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 16th March, 2016, the Bank redeemed a face value of US\$15 million 1.20% Senior Notes (the "2016 USD Senior Notes") upon their maturity. The 2016 USD Senior Notes were issued in 2015 under the Bank's Medium Term Note Programme and listed on the Singapore Exchange.

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

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

CHAIRMAN'S STATEMENT

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

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

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

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

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

Strategy

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

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

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

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

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

Reducing Costs

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

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

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

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

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

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

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

Digital Banking

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

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

Overseas

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

Tricor Holdings

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

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

Outlook

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

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

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

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

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

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

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

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

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

David LI Kwok-po
Chairman & Chief Executive

Hong Kong, 17th February, 2017

REPORT OF THE CHIEF EXECUTIVE AND SENIOR MANAGEMENT

FINANCIAL REVIEW

Financial Performance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Position

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

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

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

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

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

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

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

RATINGS

S&P Global Ratings

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

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

Moody's Investor Service

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

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

BUSINESS REVIEW

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

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

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

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

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

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

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

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

Business – Hong Kong

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

Corporate and Commercial Banking

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

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

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

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

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

Retail Banking

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

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

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

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

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

Wealth Management

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

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

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

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

Insurance and MPF Services

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

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

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

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

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

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

Broking Operations

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

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

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

Business – Greater China ex-Hong Kong

Mainland China Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Macau and Taiwan Operations

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

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

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

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

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

Business – International

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

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

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

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

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

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

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

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

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

Other Subsidiaries

Credit Gain Finance Company Limited

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

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

Tricor Holdings Limited

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

BEA Union Investment Management Limited

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

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

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

Our People

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

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

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

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

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

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

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

RISK MANAGEMENT

Risk Management Framework

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

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

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

Enterprise Risk Management

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

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

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

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

Principal Risks

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

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

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

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

Risk	Description	Management Measures
Operational	Risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events	Establishment of comprehensive policies, guidelines, and manuals to identify, assess, monitor, and report operational risk of the Bank Group systematically and effectively, such as setting out operational risk incident reporting, risk control self-assessment, key risk indicators, insurance policies, etc.
Reputation	Risk that the Group's reputation is damaged by one or more events, which result in negative publicity about the business practices, conduct, or financial condition of the Group. Such negative publicity, whether true or not, may impair public confidence in the Group, result in costly litigation, or lead to a decline in its customer base, business, and/or revenue	<ul style="list-style-type: none"> <li data-bbox="858 486 1469 748">- Establishment of various policies, guidelines, manuals, and codes to ensure compliance with applicable laws, rules, and regulations, and to ensure that the Bank Group maintains a high standard of corporate governance, which in turn helps to safeguard and enhance the Group's reputation <li data-bbox="858 786 1469 1084">- Formulation of, and adherence to, the Reputation Risk Management Manual, which outlines a systematic approach to the management of reputation risk, including a framework for reputation risk identification, assessment, monitoring, mitigation, and control, thereby protecting and enhancing the reputation of the Bank Group <li data-bbox="858 1122 1469 1256">- Establishment of the Guidelines for Incident Response and Management for swift response to and management of unexpected incidents <li data-bbox="858 1294 1469 1391">- Establishment of the Media Guidelines to ensure effective and consistent delivery of the Group's key messages to the media
Strategic	Risk of current or potential impact on the Group's earnings, capital, reputation, or standing arising from changes in the environment the Group operates in, adverse strategic decisions, improper implementation of decisions, or lack of responsiveness to industry, economic, or technology changes	<ul style="list-style-type: none"> <li data-bbox="858 1426 1469 1525">- Establishment of comprehensive policies, guidelines, and manuals, to set out control limits and measures <li data-bbox="858 1563 1469 1765">- Capital management through projection of the Capital Adequacy Ratio and Internal Capital Adequacy Assessment Process to assess the level and structure of capital resources needed to support the risks that the Group tolerates

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

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

Principal Uncertainties

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

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

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

Certificates of Deposit, Debt Securities Issued, and Loan Capital

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

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

Maturity Profile of Certificates of Deposit and Debt Securities Issued

As at 31st December, 2016

(All expressed in millions of dollars)

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

Note:

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

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

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

Maturity Profile of Loan Capital

As at 31st December, 2016

(All expressed in millions of dollars)

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

Notes:

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

COMPLIANCE

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

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

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

By order of the Board

David LI Kwok-po

Chairman & Chief Executive

Hong Kong, 17th February, 2017

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

[#] *Executive Director*

* *Non-executive Director*

** *Independent Non-executive Director*

GLOSSARY

詞彙

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

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

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