BEA 東亞銀行

The Bank of East Asia, Limited

東亞銀行有限公司

(Incorporated in Hong Kong with limited liability in 1918)
(Stock Code: 23)

ANNOUNCEMENT OF 2018 FINAL RESULTS

SUMMARY OF RESULTS

The Board of Directors of the Bank is pleased to announce the audited results (Note 1(a)) of the Group for the year ended 31st December, 2018. 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 2018 annual accounts.

Consolidated Income Statement

	Notes	2018 HK$ Mn	2017 HK$ Mn
CONTINUING OPERATIONS			
Interest income	*4*	25,598	21,629
Interest income calculated using the effective interest method		25,058	21,509
Other interest income		540	120
Interest expense	*5*	(12,639)	(9,797)
Net interest income		12,959	11,832
Fee and commission income	*6*	3,813	3,557
Fee and commission expense		(1,160)	(1,064)
Net fee and commission income		2,653	2,493
Net trading profits	*7*	994	526
Net result from other financial instruments at FVTPL	*8*	(286)	35
Net hedging profit/(loss)	*9*	43	(2)
Net insurance revenue	*10(a)*	295	687
Other operating income	*11*	414	382
Non-interest income		4,113	4,121
Operating income		17,072	15,953
Operating expenses	*12*	(8,563)	(8,067)
Operating profit before impairment losses		8,509	7,886
Impairment losses on financial instruments	*13*	(1,188)	(1,744)
Impairment losses on assets held for sale		-	(63)
Impairment losses on intangible assets	*14*	(5)	(650)
Impairment losses on associate		(397)	-
Impairment losses		(1,590)	(2,457)
Operating profit after impairment losses		6,919	5,429
Net profit on sale of held-to-maturity investments		-	6
Net profit on sale of available-for-sale financial assets	*15*	-	1,057
Net profit on sale of financial assets at FVOCI	*16*	62	-
Net profit on sale of disposal groups and assets held for sale		56	183
Net profit on disposal of subsidiaries/associates		1	2
Net loss on disposal of fixed assets	*17*	(9)	(22)
Valuation gains on investment properties		465	522
Share of profits less losses of associates		566	388
Profit for the year before taxation		8,060	7,565
Income tax	*18*	(1,506)	(1,195)
Profit for the year from continuing operations		6,554	6,370
DISCONTINUED OPERATIONS			
Profit from discontinued operations	*28*	-	4,145
Profit for the year		6,554	10,515

Consolidated Income Statement (Continued)

	Notes	2018 HK$ Mn	2017 HK$ Mn
Attributable to:			
Owners of the parent			
- from continuing operations		6,509	6,298
- from discontinued operations		-	3,049
		6,509	9,347
Non-controlling interests		45	1,168
Profit for the year		6,554	10,515
Earnings per share			
Basic	*1(b)*		
- profit for the year		HK$2.07	HK$3.21
- profit from continuing operations		HK$2.07	HK$2.09
Diluted	*1(b)*		
- profit for the year		HK$2.07	HK$3.20
- profit from continuing operations		HK$2.07	HK$2.09
Dividends per share		HK$1.18	HK$1.28

Consolidated Statement of Comprehensive Income

	Notes	2018 HK$ Mn	2017 HK$ Mn
Net profit		6,554	10,515
Other comprehensive income for the year:			
Items that will not be reclassified to income statement:			
Premises:			
- unrealised surplus on revaluation of premises		8	44
- deferred taxes		(13)	1
Fair value reserve (equity instruments at FVOCI):			
- net change in fair value		296	-
- deferred taxes		(5)	-
Liability credit reserve:			
- net change in fair value attributable to Group's own credit risk		3	-
Items that may be reclassified subsequently to income statement:			
Fair value reserve (debt instruments at FVOCI):			
- net change in fair value		(932)	-
- amount transferred to income statement on disposal	*16*	(52)	-
- on amortisation		(4)	-
- deferred taxes		69	-
Fair value reserve (available-for-sale financial assets):			
- net change in fair value		-	1,458
- fair value changes reclassified to income statement on disposal	*15*	-	(1,320)
- deferred taxes		-	(65)
Hedging reserve (cash flow hedges):			
- effective portion of changes in fair value of hedging instruments		(1)	20
- fair value change reclassified from income statement		5	13
Share of changes in equity of associates		(42)	(54)
Exchange differences arising from translation of accounts/disposal of overseas branches, subsidiaries and associates		(1,908)	2,818
Other comprehensive income		(2,576)	2,915
Total comprehensive income		3,978	13,430
Total comprehensive income attributable to:			
Owners of the parent		3,928	12,206
Non-controlling interests		50	1,224
		3,978	13,430

Consolidated Statement of Financial Position

	Notes	2018 HK$ Mn	2017 Restated HK$ Mn
ASSETS			
Cash and balances with banks and other financial institutions		48,106	55,696
Placements with and advances to banks and other financial institutions		60,373	58,583
Trade bills		14,646	13,909
Trading assets	*19*	3,483	6,956
Derivative assets	*24*	10,211	11,335
Loans and advances to customers	*20*	498,284	470,339
Investment securities	*21*	144,729	134,425
Investments in associates		9,129	9,429
Fixed assets		13,165	12,750
- Investment properties		5,249	5,107
- Other properties and equipment		7,916	7,643
Goodwill and intangible assets		1,940	1,959
Deferred tax assets		481	602
Other assets	*22*	34,904	32,959
Total Assets		839,451	808,942
EQUITY AND LIABILITIES			
Deposits and balances of banks and other financial institutions		27,490	26,981
- Designated at fair value through profit or loss		1,335	3,110
- At amortised cost		26,155	23,871
Deposits from customers		574,114	571,684
Trading liabilities		-	11
Derivative liabilities	*24*	9,496	12,077
Certificates of deposit issued		58,490	36,466
- Designated at fair value through profit or loss		9,462	11,655
- At amortised cost		49,028	24,811
Current taxation		1,437	1,160
Debt securities issued		564	1,007
- Designated at fair value through profit or loss		407	851
- At amortised cost		157	156
Deferred tax liabilities		483	551
Other liabilities		51,444	45,378
Loan capital – at amortised cost		12,358	12,413
Total Liabilities		735,876	707,728
Share capital	*1(c)*	39,925	37,527
Reserves	*25*	51,901	51,955
Total equity attributable to owners of the parent		91,826	89,482
Additional equity instruments		8,894	8,894
Non-controlling interests		2,855	2,838
Total Equity		103,575	101,214
Total Equity and Liabilities		839,451	808,942

Consolidated Statement of Changes in Equity

	Share capital	General reserve	Revaluation reserve of bank premises	Capital reserve	Exchange revaluation reserve	Capital reserve – staff share options issued	Fair value reserve	Hedging reserve	Liability credit reserve	Other reserves[2]	Retained profits	Total	Additional equity instruments	Non-controlling interests	Total equity
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
At 1st January, 2018	37,527	14,060	1,757	230	487	135	1,454	11	-	4,931	28,890	89,482	8,894	2,838	101,214
Impact of adopting HKFRS 9 at 1st January, 2018 *(Note 3)*	-	-	-	-	-	-	(162)	-	(6)	-	(32)	(200)	-	-	(200)
Restated balance at 1st January, 2018	37,527	14,060	1,757	230	487	135	1,292	11	(6)	4,931	28,858	89,282	8,894	2,838	101,014
Changes in equity															
Profit for the year	-	-	-	-	-	-	-	-	-	-	6,509	6,509	-	45	6,554
Other comprehensive income	-	-	(5)	-	(1,913)	-	(628)	4	3	(42)	-	(2,581)	-	5	(2,576)
Total comprehensive income	-	-	(5)	-	(1,913)	-	(628)	4	3	(42)	6,509	3,928	-	50	3,978
Shares issued in lieu of dividend *(Note 1(c))*	2,313	-	-	-	-	-	-	-	-	-	-	2,313	-	-	2,313
Shares issued under Staff Share Option Schemes *(Note 1(c))*	73	-	-	-	-	-	-	-	-	-	-	73	-	-	73
Equity settled share-based transaction	-	-	-	-	-	35	-	-	-	-	-	35	-	-	35
Transfer	12	(6)	-	703	-	(12)	-	-	-	74	(771)	-	-	-	-
Distribution/Dividends declared or approved during the year	-	-	-	-	-	-	-	-	-	-	(3,805)	(3,805)	-	(53)	(3,858)
Change of ownership in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	55	55
Decrease in non-controlling interests arising from capital reduction of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(35)	(35)
At 31st December, 2018	39,925	14,054	1,752	933	(1,426)	158	664	15	(3)	4,963	30,791	91,826	8,894	2,855	103,575
At 1st January, 2017	35,490	14,035	1,728	230	(2,275)	124	1,381	(22)	-	5,293	22,447	78,431	5,016	3,189	86,636
Changes in equity															
Profit for the year	-	-	-	-	-	-	-	-	-	-	9,347	9,347	-	1,168	10,515
Other comprehensive income	-	-	45	-	2,762	-	73	33	-	(54)	-	2,859	-	56	2,915
Total comprehensive income	-	-	45	-	2,762	-	73	33	-	(54)	9,347	12,206	-	1,224	13,430
Issue of additional equity instruments[1]	-	-	-	-	-	-	-	-	-	-	-	-	3,878	-	3,878
Shares issued in lieu of dividend *(Note 1(c))*	1,927	-	-	-	-	-	-	-	-	-	-	1,927	-	-	1,927
Shares issued under Staff Share Option Schemes *(Note 1(c))*	93	-	-	-	-	-	-	-	-	-	-	93	-	-	93
Equity settled share-based transaction	-	-	-	-	-	36	-	-	-	-	-	36	-	-	36
Transfer	17	25	(16)	-	-	(25)	-	-	-	(308)	307	-	-	-	-
Distribution/Dividends declared or approved during the year	-	-	-	-	-	-	-	-	-	-	(3,211)	(3,211)	-	(1,422)	(4,633)
Change of ownership in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(18)	(18)
Decrease in non-controlling interests arising from capital reduction of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(135)	(135)
At 31st December, 2017	37,527	14,060	1,757	230	487	135	1,454	11	-	4,931	28,890	89,482	8,894	2,838	101,214

1. *In 2017, the Bank issued HK$3,892 million (USD500 million) undated non-cumulative subordinated Additional Tier 1 capital securities ("AT1"). Direct issuance costs of HK$14 million are accounted for as a deduction from the equity instruments.*

2. *Other reserves include statutory reserve and other reserves.*

Consolidated Cash Flow Statement

	Notes	2018 HK$ Mn	2017 HK$ Mn
OPERATING ACTIVITIES			
Profit for the year before taxation		8,060	11,724
Adjustments for:			
Charge for impairment losses on financial instruments		1,188	1,744
Charge for impairment losses on intangible assets		5	650
Charge for impairment losses on assets held for sale		-	63
Charge for impairment losses on associate		397	-
Share of profits less losses of associates		(566)	(388)
Net profit on sale of held-to-maturity investments		-	(6)
Net profit on sale of financial assets at FVOCI		(62)	-
Net profit on sale of available-for-sale financial assets		-	(1,057)
Net profit on disposal of subsidiaries and associates		(1)	(2)
Net profit on sale of disposal groups and assets held for sale		(56)	(183)
Net profit on sale of discontinued operations		-	(4,084)
Net loss on disposal of fixed assets		9	22
Interest expense on certificates of deposit, debt securities and loan capital issued		1,340	1,531
Depreciation on fixed assets	*12*	473	466
Dividend income from equity securities at FVOCI	*11*	(23)	-
Dividend income from available-for-sale financial assets	*11*	-	(34)
Amortisation of intangible assets	*12*	14	32
Amortisation of premium/discount on certificates of deposit, debt securities and loan capital issued		524	309
Revaluation gains on certificates of deposit, debt securities and loan capital issued		(97)	(169)
Valuation gains on investment properties		(465)	(522)
Equity settled share-based payment expenses	*12*	35	36
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL		10,775	10,132
(Increase)/decrease in operating assets:			
Cash and balances with banks with original maturity beyond three months		8,361	(953)
Placements with and advances to banks and other financial institutions with original maturity beyond three months		(2,888)	7,000
Trade bills		(710)	(1,970)
Trading assets		2,933	(3,002)
Financial assets designated at fair value through profit or loss		1,495	(615)
Derivative assets		1,124	(2,397)
Loans and advances to customers		(28,705)	(21,892)
Debt securities at amortised cost		(1,336)	-
Held-to-maturity debt securities		-	(3,475)
Debt securities at FVOCI		(12,661)	-
Available-for-sale debt securities		-	(5,447)
Debt securities mandatorily at FVTPL		(1,953)	-
Other assets		(1,725)	2,737
Increase/(decrease) in operating liabilities:			
Deposits and balances of banks and other financial institutions		509	506
Deposits from customers		2,430	35,895
Trading liabilities		(11)	(39)
Derivative liabilities		(2,581)	4,095
Other liabilities		5,856	(4,067)
Exchange adjustments		1,660	(2,382)
NET CASH (OUTFLOW)/INFLOW FROM OPERATIONS		(17,427)	14,126
Income tax paid			
Hong Kong profits tax paid		(625)	(812)
Outside Hong Kong profits tax paid		(568)	(649)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		(18,620)	12,665

	Notes	2018 HK$ Mn	2017 HK$ Mn
INVESTING ACTIVITIES			
Dividends received from associates		49	83
Dividends received from non-trading equity securities		23	34
Purchase of non-trading equity securities		(2,428)	(4,723)
Proceeds from sale of non-trading equity securities		2,550	5,328
Purchase of fixed assets		(657)	(409)
Purchase of investment properties		(7)	-
Proceeds from disposal of other properties and equipment		28	27
Proceeds from sale of disposal groups and assets held for sale		137	653
Proceeds from sale of discontinued operations		-	5,947
Proceeds from disposal of associate		11	-
Increase of shareholding in associates		(304)	(2,612)
Change of ownership in subsidiaries		-	(18)
Decrease in non-controlling interests arising from capital reduction of a subsidiary		(35)	(135)
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		(633)	4,175
FINANCING ACTIVITIES			
Ordinary dividends paid		(832)	(2,106)
Distribution to Hybrid/Additional Tier 1 issue holders	*2(c)*	(713)	(600)
Issue of ordinary share capital	*1(c)*	73	93
Issue of additional equity instruments		-	3,892
Issue of certificates of deposit		107,441	74,007
Issue of debt securities		114	1,367
Redemption of certificates of deposit issued		(85,576)	(67,055)
Redemption of debt securities issued		(565)	(7,617)
Redemption of loan capital		-	(8,580)
Interest paid on certificates of deposit and debt securities issued		(626)	(769)
Interest paid on loan capital		(617)	(920)
NET CASH GENERATE FROM/(USED IN) FINANCING ACTIVITIES		18,699	(8,288)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(554)	8,552
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		89,980	75,841
Effect of foreign exchange rate changes		(3,406)	5,587
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER		86,020	89,980
Cash flows from operating activities included:			
Interest received		24,710	21,300
Interest paid		12,547	10,423
Dividend received		73	79

Notes to the Financial Statements

1. (a) The financial information relating to the years ended 31st December, 2018 and 2017 included in this announcement of 2018 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, 2017 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, 2018 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$5,796 million and HK$5,796 million (2017: HK$8,747 million and HK$5,698 million) respectively after the distribution of HK$713 million (2017: HK$600 million) to Hybrid/Additional Tier 1 issue holders, and on the weighted average of 2,805 million (2017: 2,728 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$5,796 million and HK$5,796 million (2017: HK$8,747 million and HK$5,698 million) respectively after the distribution of HK$713 million (2017: HK$600 million) to Hybrid/Additional Tier 1 issue holders, and on 2,805 million (2017: 2,730 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:

	2018		2017	
	No. of shares Mn	HK$ Mn	No. of shares Mn	HK$ Mn
Ordinary shares, issued and fully paid:				
At 1st January	2,765	37,527	2,703	35,490
Shares issued under Staff Share Option Schemes	3	73	3	93
Transfer of the fair value of options from capital reserve – share options issued	-	12	-	17
Shares issued in lieu of dividend	78	2,313	59	1,927
At 31st December	2,846	39,925	2,765	37,527

2. Distribution/Dividends

(a) Dividends attributable to the year

	2018	2017
	HK$ Mn	HK$ Mn
Interim dividend declared and paid of HK$0.51 per share on 2,808 million shares (2017: HK$0.68 per share on 2,726 million shares)	1,432	1,854
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$0.60 per share (2017: HK$0.28 per share)	1	-
Second interim dividend of HK$0.32 per share on 2,846 million shares (2017: HK$0.60 per share on 2,765 million shares)	910	1,659
Special dividend of HK$0.35 per share on 2,846 million shares	996	-
	3,339	3,513

The total dividend attributable to the year is HK$1.18 per share (2017: HK$1.28 per share). The second interim dividend and the special dividend have 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

	2018	2017
	HK$ Mn	HK$ Mn
Second interim dividend in respect of the previous financial year, approved and paid during the year, of HK$0.60 per share on 2,765 million shares (2017: HK$0.28 per share on 2,703 million shares)	1,659	757

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

	2018	2017
	HK$ Mn	HK$ Mn
Interest paid or payable on the Hybrid Tier 1 capital instruments	212	211
Amount paid on the Additional Tier 1 capital instruments	501	389
	713	600

3. Changes in Accounting Policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers
- HK(IFRIC) 22, Foreign currency transactions and advance consideration

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to presentation of contract assets and contract liabilities.

(a) HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by HKFRS 9, the Group has elected to continue to apply the hedge accounting requirements of HKAS 39.

As a result of the adoption of HKFRS 9, the Group has adopted consequential amendments to HKAS 1 Presentation of Financial Statements, which require separate presentation in the consolidated income statement of interest revenue calculated using the effective interest method.

Additionally, the Group has adopted consequential amendments to HKFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Group's accounting policies resulting from its adoption of HKFRS 9 are summarised below.

Classification of financial assets and financial liabilities

HKFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. Classification of a financial asset under HKFRS 9 is generally based on the business model in which the financial asset is managed and the contractual cash flows of the financial asset. For an equity instrument which is not held for trading at initial recognition, an irrevocable election can be made to present subsequent changes in fair value of the equity instrument in OCI. Cumulative gains and losses recognised in OCI are not recycled to profit or loss upon derecognition of the equity instrument, in contrast to debt instrument measured at FVOCI where recycling of cumulative gains and losses to profit or loss upon derecognition is permitted. For derivatives embedded in contracts where the host is a financial asset in the scope of the standard, they are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. The standard removes the HKAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

HKFRS 9 largely retains the requirements in HKAS 39 for the classification of financial liabilities. Although all fair value changes of liabilities designated under the fair value option were recognised in profit or loss under HKAS 39, fair value changes are generally presented under HKFRS 9 as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The following table shows the original measurement categories in accordance with HKAS 39 and the new measurement categories under HKFRS 9 for the Group's financial assets as at 1st January, 2018.

There is no change in the measurement categories for the Group's financial liabilities between HKAS 39 and HKFRS 9 as at 1st January, 2018.

	Notes	Original classification under HKAS 39	New classification under HKFRS 9	Original carrying amount under HKAS 39 HK$ Mn	New carrying amount under HKFRS 9 HK$ Mn
Cash and balances with banks and other financial institutions		Loans and receivables	Amortised cost	55,696	55,684
Placements with and advances to banks and other financial institutions		Loans and receivables	Amortised cost	58,583	58,577
Trade bills		Loans and receivables	Amortised cost	3,896	3,887
Trade bills[a]		Loans and receivables	FVOCI	10,013	10,033
Trading assets	*19*	FVTPL	FVTPL (mandatory)	6,956	6,956
Derivative assets	*24*	FVTPL	FVTPL (mandatory)	11,335	11,335
Loans and advances to customers	*20*	Loans and receivables	Amortised cost	470,339	470,738
Investment securities – debt	*21*	FVTPL (designated)	FVTPL (designated)	3,125	3,125
Investment securities – debt[b]	*21*	FVTPL (designated)	FVTPL (mandatory)	754	754
Investment securities – debt[c]	*21*	Available-for-sale	Amortised cost	8,512	8,328
Investment securities – debt	*21*	Available-for-sale	FVOCI	100,532	100,532
Investment securities – debt[d]	*21*	Available-for-sale	FVTPL (mandatory)	7,690	7,690
Investment securities – debt	*21*	Held-to-maturity investments	Amortised cost	9,720	9,701
Investment securities – debt[d]	*21*	Held-to-maturity investments	FVTPL (mandatory)	78	81
Investment securities – debt[d]	*21*	Loans and receivables	FVTPL (mandatory)	133	132
Investment securities – equity[b]	*21*	FVTPL (designated)	FVTPL (mandatory)	166	166
Investment securities – equity	*21*	Available-for-sale	FVTPL (mandatory)	2,697	2,697
Investment securities – equity[e]	*21*	Available-for-sale	FVOCI	345	345
Investment securities – investment fund[b]	*21*	FVTPL (designated)	FVTPL (mandatory)	124	124
Investment securities – investment fund	*21*	Available-for-sale	FVTPL (mandatory)	549	549
Other assets(excluding assets held for sale)	*22*	Loans and receivables	Amortised cost	32,493	32,436
Total financial assets				783,736	783,870

a. Certain trade bills are reclassified to FVOCI because they are held within a business model in which they are managed to meet everyday liquidity needs and often results in sales activity that is significant in value. The Group considers that under HKFRS 9 such portfolios of trade bills are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

b. Before the adoption of HKFRS 9, certain investment securities were designated as at FVTPL because they are managed and their performance is evaluated on a fair value basis or derivatives are held to manage specific risk of these securities and the designation eliminated or significantly reduced an accounting mismatch that would otherwise arise. Under HKFRS 9, these securities meet the criteria of mandatory measurement at FVTPL because the contractual cash flows of these securities are not solely payments of principal and interest on the principal outstanding.

c. Certain debt securities are held by the Group in a separate portfolio for long-term yield purposes. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect contractual cash flows. These securities are classified as measured at amortised cost under HKFRS 9.

d. Investment securities are held by the Group in a separate portfolio for long-term yield purposes but the contractual cash flows are not solely payments of principal and interest on the principal outstanding. These securities are therefore mandatorily measured at FVTPL under HKFRS 9.

e. Certain available-for-sale equity investments held by the Group for strategic purpose have been designated under HKFRS 9 as at FVOCI.

The following table reconciles the carrying amounts under HKAS 39 to the carrying amounts under HKFRS 9 on transition to HKFRS 9 on 1st January, 2018:

	HKAS 39 carrying amount 31st December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount 1st January 2018
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Financial assets				
Amortised cost				
Cash and balances with banks and other financial institutions				
Opening balance	55,696			
Remeasurement			(12)	
Closing balance				55,684
Placements with and advances to banks and other financial institutions				
Opening balance	58,583			
Remeasurement			(6)	
Closing balance				58,577
Trade bills				
Opening balance	13,909			
To Trade Bills at FVOCI		(10,013)		
Remeasurement			(9)	
Closing balance				3,887
Loans and advances to customers				
Opening balance	470,339			
Remeasurement			399	
Closing balance				470,738
Investment securities				
Opening balance	9,931			
From available-for-sale		8,512		
To FVTPL		(211)		
Remeasurement			(203)	
Closing balance				18,029
Other assets				
Opening balance	32,493			
Remeasurement			(57)	
Closing balance				32,436
Total amortised cost				639,351

	HKAS 39 carrying amount 31st December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount 1st January 2018
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Financial assets				
Available-for-sale				
Investment securities				
Opening balance	120,325			
To FVOCI - debt		(100,528)		
To FVOCI - equity		(349)		
To FVTPL		(10,936)		
To amortised cost		(8,512)		
Closing balance				-
Trade Bills at FVOCI				
Trade Bills				
Opening balance	-			
From amortised cost		10,013		
Remeasurement			20	
Closing balance				10,033
FVOCI - debt				
Investment securities				
Opening balance	-			
From available-for-sale		100,528		
Closing balance				100,528
FVOCI - equity				
Investment securities				
Opening balance	-			
From available-for-sale		349		
Closing balance				349
Total FVOCI				110,910
FVTPL				
Trading assets	6,956			6,956
Derivative assets	11,335			11,335
Investment securities				
Opening balance	4,169			
From available-for-sale		10,936		
From amortised cost		211		
Remeasurement			2	
Closing balance				15,318
Total FVTPL				33,609

The following table shows the effects of the reclassification of financial assets from HKAS 39 categories into the amortised cost category under HKFRS 9.

Financial assets	HK$ Mn
From available-for-sale financial assets under HKAS 39	
Fair value at 31st December, 2018	6,980
Fair value gain/(loss) that would have been recognised during 2018 in OCI if the financial assets had not been reclassified	(119)

Impairment of financial assets

HKFRS 9 replaces the 'incurred loss' model in HKAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under HKFRS 9, credit losses are recognised earlier than under HKAS 39.

The Group recognises impairment allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued;
- loan commitments issued; and
- contract assets

No impairment loss is recognised on equity investments.

The Group measures impairment allowances for 12-month or lifetime ECL using a 3-stage approach as follows:-

Stage	Description	Impairment Loss
1	Performing	12-month ECL
2	Performing but with credit risk increased significantly at reporting date since its initial recognition	Lifetime ECL
3	Non-performing	Lifetime ECL

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses under different economic scenarios. They are measured as:

Exposure at Default x Probability of Default x Loss Given Default

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes but not limited to the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

Presentation of allowance for ECL in the statement of financial position

Impairment allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision on the liabilities side; and
- debt instruments measured at FVOCI: no impairment allowance is presented in the statement of financial position because the carrying amount of these assets is their fair value, inclusive of any ECL. However, the impairment allowance is recognised in the fair value reserve and disclosed separately.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The following table reconciles the closing impairment allowance for financial assets in accordance with HKAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as at 31st December, 2017 to the opening ECL allowance determined in accordance with HKFRS 9 as at 1st January, 2018.

	31st December 2017 (HKAS 39 / HKAS 37)	Reclassification	Remeasurement	1st January 2018 (HKFRS 9)
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Loans and receivables and held-to-maturity investments under HKAS 39 / financial assets at amortised cost under HKFRS 9	3,454	-	(297)	3,157
Available-for-sale debt securities under HKAS 39 reclassified to amortised cost under HKFRS 9	-	-	58	58
	3,454	-	(239)	3,215
Available-for-sale debt securities under HKAS 39 / debt securities at FVOCI under HKFRS 9	-	-	212	212
Loans and receivables at amortised cost under HKAS 39 reclassified to FVOCI under HKFRS 9	-	-	18	18
	3,454	-	(9)	3,445
Loan commitments and financial guarantee contracts issued	-	-	164	164
Total	3,454	-	155	3,609

Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below.

- Information relating to comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1st January, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 and therefore is not comparable to the information presented for 2018 under HKFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

  - The determination of the business model within which a financial asset is held.

  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

- If a debt security had low credit risk at the date of initial application of HKFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

The following table analyses the impact, net of tax, of transition of HKFRS 9 on reserve and retained earnings. The impact relates to liability credit reserve, the fair value reserve and retained earnings. There is no impact on other component of equity.

	Impact of adopting HKFRS 9 at 1st January 2018
	HK$ Mn
Liability credit reserve	
Closing balance under HKAS 39 (31st December, 2017)	-
Change of credit risk for financial liabilities designated at FVTPL	(6)
Opening balance under HKFRS 9 (1st January, 2018)	(6)
Fair value reserve	
Closing balance under HKAS 39 (31st December, 2017)	1,454
Reclassification of investment securities (debt) from AFS to amortised cost	(105)
Reclassification of investment securities (debt, equity and investment fund) from AFS to FVTPL	(270)
Reclassification of trade bills from amortised cost to FVOCI	15
Recognition of expected credit losses under HKFRS 9 for debt financial assets at FVOCI	198
Opening balance under HKFRS 9 (1st January, 2018)	1,292
Retained earnings	
Closing balance under HKAS 39 (31st December, 2017)	28,890
Reclassification under HKFRS 9	278
Own credit risk of financial liabilities	6
Recognition of expected credit losses under HKFRS 9 (including loan commitments and financial guarantee contracts)	(243)
Impact from investment in associates	(73)
Opening balance under HKFRS 9 (1st January, 2018)	28,858

(b) HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group performed an assessment of the new standard and concluded that the current treatment of revenue from contracts with customers is consistent with the new principles. Except for the change in presentation of contract assets and liabilities, the adoption of HKFRS 15 does not have any material impact on the financial position and there is no transitional impact to retained earnings. Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before receiving the consideration or being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. The contract asset is transferred to receivables when the right to consideration becomes unconditional. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

(c) HK(IFRIC) 22, Foreign Currency Transactions and Advance Consideration

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

4. Interest Income

	2018	2017
	HK$ Mn	HK$ Mn
CONTINUING OPERATIONS		
Loans, deposits with banks and financial institutions, and trade bills	21,472	18,269
Investment securities		
- at amortised cost or FVOCI (2017: held-to-maturity or available-for-sale)	3,609	3,022
- designated at FVTPL	109	174
- mandatory at FVTPL	269	-
Trading assets	139	164
	25,598	21,629

The above included HK$25,058 million (2017: HK$21,509 million) interest income, 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.

For the year ended 31st December 2018, interest income accrued on impaired financial assets was HK$233 million (2017: HK$351 million).

5. Interest Expense

	2018 HK$ Mn	2017 HK$ Mn
CONTINUING OPERATIONS		
Customer deposits, deposits of banks and other financial institutions		
– at amortised cost	10,725	8,341
– designated at FVTPL	22	3
Certificates of deposit and debt securities issued		
– at amortised cost	955	519
– designated at FVTPL	275	185
Subordinated notes carried at amortised cost	634	745
Other borrowings	28	4
	12,639	9,797

The above included HK$12,336 million (2017: HK$9,700 million) interest expense, 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.

6. Fee and Commission Income

Fee and commission income is disaggregated by services:

	2018 HK$ Mn	2017 Restated [Note] HK$ Mn
CONTINUING OPERATIONS		
Credit cards	1,125	1,012
Loans, overdrafts and guarantees	746	706
Other retail banking services	343	364
Trade finance	342	316
Trust and other fiduciary activities	310	277
Securities and brokerage	279	267
Investment products	122	89
Financial consultancy	66	37
Sale of third party insurance policies	44	89
Others	436	400
	3,813	3,557
of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not measured at FVTPL	2,678	2,523
Fee income	3,813	3,557
Fee expenses	(1,135)	(1,034)

Note: *To better reflect the income nature, certain fee and commission income for 2017 has been reclassified among the categories of other retail banking services, trust and other fiduciary activities, securities and brokerage and other services.*

7. Net Trading Profits

	2018 HK$ Mn	2017 HK$ Mn
CONTINUING OPERATIONS		
Profit/(Loss) on dealing in foreign currencies and funding swaps	624	(1,180)
(Loss)/Profit on trading securities	(44)	755
Net gain on derivatives	365	906
Loss on other dealing activities	(1)	-
Dividend income from trading equity securities	50	45
	994	526

8. Net Result from Other Financial Instruments at FVTPL

	2018 HK$ Mn	2017 HK$ Mn
CONTINUING OPERATIONS		
Net (loss)/gain from financial instruments designated at FVTPL	(45)	35
Net loss from financial instruments mandatorily measured at FVTPL (other than those included in net trading profits)	(241)	-
	(286)	35

9. Net Hedging Profit/(Loss)

	2018 HK$ Mn	2017 HK$ Mn
CONTINUING OPERATIONS		
Fair value hedges		
- Net gain on hedged items attributable to the hedged risk	224	57
- Net loss on hedging instruments	(181)	(59)
	43	(2)

There was insignificant ineffectiveness recognised in the Group’s income statement arising from cash flow hedge for the years 2018 and 2017.

10. Net Insurance Revenue

		2018 HK$ Mn	2017 HK$ Mn
CONTINUING OPERATIONS			
(a) Net insurance revenue			
Net interest income		530	453
Net trading profits		10	45
Net profit from financial instruments designated at FVTPL		-	52
Net loss from financial instruments mandatory at FVTPL		(372)	-
Net insurance premium	(b)	4,890	4,332
Other operating income		-	6
		5,058	4,888
Net insurance claims and expenses	(c)	(4,781)	(4,733)
		277	155
Operating expenses		(2)	(4)
Impairment loss on financial instruments		(7)	(2)
Net profit on sale of available-for-sale financial assets		-	538
Net profit on sale of debt investment securities at FVOCI		27	-
		295	687
(b) Net insurance premium			
Gross insurance premium income *(Note)*		4,954	4,395
Reinsurers' share of gross insurance premium income		(64)	(63)
		4,890	4,332
(c) Net insurance claims and expenses			
Claims, benefits and surrenders paid		2,869	3,137
Movement in provisions		1,796	1,564
		4,665	4,701
Reinsurers' share of claim, benefits and surrenders paid		(376)	(938)
Reinsurers' share of movement in provisions		327	809
		(49)	(129)
		4,616	4,572
Net insurance commission expenses		165	161
		4,781	4,733

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

11. Other Operating Income

	2018 HK$ Mn	2017 HK$ Mn
CONTINUING OPERATIONS		
Dividend income from available-for-sale financial assets	-	34
Dividend income from equity securities measured at FVOCI	23	-
Rental from safe deposit boxes	110	88
Rental income on properties	178	165
Others	103	95
	414	382

12. Operating Expenses

	2018	2017
	HK$ Mn	HK$ Mn
CONTINUING OPERATIONS		
Contributions to defined contribution plan*		
- Hong Kong	147	140
- Outside Hong Kong	239	221
Equity settled share-based payment expenses	35	36
Salaries and other staff costs	4,654	4,371
Total staff costs	5,075	4,768
Premises and equipment expenses excluding depreciation		
- Rental of premises	517	561
- Maintenance, repairs and others	588	568
Total premises and equipment expenses excluding depreciation	1,105	1,129
Depreciation on fixed assets	473	466
Amortisation of intangible assets	14	32
Other operating expenses		
- Legal and professional fees	410	394
- Communications, stationery and printing	268	263
- Advertising expenses	251	254
- Internet platform charges	183	-
- Business promotions and business travel	127	138
- Card related expenses	127	41
- Stamp duty, withholding taxes and value added taxes	118	182
- Insurance expenses	82	78
- Audit fee	18	17
- Membership fees	17	17
- Donations	10	4
- Bank charges	10	10
- Bank licence	4	4
- Others	271	270
Total other operating expenses	1,896	1,672
Total operating expenses**	8,563	8,067

* *Forfeited contributions totalling HK$23 million (2017: HK$25 million) were utilised to reduce the Group's contribution during the year. There were no forfeited contributions available for reducing future contributions at the year end (2017: Nil).*

** *Included in operating expenses are direct operating expenses of HK$8 million (2017: HK$9 million) in respect of investment properties which generated rental income during the year.*

13. Impairment Losses on Financial Instruments

	2018 HK$ Mn	2017 HK$ Mn
CONTINUING OPERATIONS		
Loans and advances to customers	1,159	1,738
Others	29	6
	1,188	1,744

14. Impairment Losses on Intangible Assets

	2018 HK$ Mn	2017 HK$ Mn
CONTINUING OPERATIONS		
Impairment losses on intangible assets	5	650

Being impairment loss made on the naming rights of a building partially owned and occupied by BEA China on the Mainland which reflected the diminution in value following a change in government policy regulating advertising billboards in 2017.

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

	2017[Note] HK$ Mn
CONTINUING OPERATIONS	
Net revaluation gain transferred from reserves	1,320
Loss arising in current year	(263)
	1,057

Note: Upon transition to HKFRS 9 on 1st January 2018, any unrealized gains/losses of available-for-sale financial assets that are required to be reclassified as "fair value through profit or loss" as of 31st December 2017 have to be transferred from revaluation reserve to the opening balance of retained earnings at 1st January 2018, and cannot be recycled to the profit and loss account upon subsequent disposal. Hence, the Group has chosen to dispose of such available-for-sale financial assets before the end of 2017, as far as practicable.

16. Net Profit on Sale of Financial Assets at FVOCI

	2018 HK$ Mn
CONTINUING OPERATIONS	
Net profit on sale of debt securities	
- Net revaluation gain transferred from reserves	52
- Profit arising in current year	10
	62

17. Net Loss on Disposal of Fixed Assets

	2018 HK$ Mn	2017 HK$ Mn
CONTINUING OPERATIONS		
Net loss on disposal of bank premises, furniture, fixtures and equipment	(9)	(22)

18. Income Tax

Taxation in the consolidated income statement represents:

	2018	2017 **Restated**
	HK$ Mn	HK$ Mn
CONTINUING OPERATIONS		
Current tax – Hong Kong		
Tax for the year	829	695
Under-provision in respect of prior years	48	36
	877	731
Current tax – outside Hong Kong		
Tax for the year	618	308
Over-provision in respect of prior years	(4)	(67)
	614	241
Deferred tax		
Origination and reversal of temporary differences	15	223
	1,506	1,195

The provision for Hong Kong profits tax is calculated at 16.5% (2017: 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.

19. Trading Assets

	2018	2017
	HK$ Mn	HK$ Mn
Treasury bills (including Exchange Fund Bills)	270	2,218
Debt securities	1,861	1,781
Equity securities	1,352	2,953
Investment funds	-	4
	3,483	6,956

20. Loans and Advances to Customers

(a) Loans and advances to customers

	2018	2017
	HK$ Mn	HK$ Mn
Loans and advances to customers at amortised cost	500,631	473,776
Less: Impairment allowances	(2,347)	(3,437)
- Stage 1	(431)	-
- Stage 2	(855)	-
- Stage 3	(1,061)	-
- Individual	-	(1,059)
- Collective	-	(2,378)
	498,284	470,339

(b) Loans and 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.

	2018		2017	
	Gross advances	% of gross advances covered by collateral	Gross advances	% of gross advances covered by collateral
	HK$ Mn	%	HK$ Mn	%
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	26,427	59.34	20,280	70.18
- Property investment	40,218	90.48	37,359	92.71
- Financial concerns	14,944	69.20	12,489	66.06
- Stockbrokers	1,928	67.61	6,899	90.20
- Wholesale and retail trade	6,839	53.30	8,831	63.00
- Manufacturing	1,903	51.42	2,123	40.31
- Transport and transport equipment	5,111	64.32	4,976	65.45
- Recreational activities	35	91.59	176	71.30
- Information technology	668	3.38	2,747	1.26
- Others	20,196	72.96	25,876	67.63
- Sub-total	118,269	73.07	121,756	74.48
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,048	100.00	1,064	100.00
- Loans for the purchase of other residential properties	55,292	100.00	42,803	100.00
- Credit card advances	4,496	0.00	4,644	0.00
- Others	39,909	88.91	34,034	87.14
- Sub-total	100,745	91.14	82,545	89.07
Total loans for use in Hong Kong	219,014	81.38	204,301	80.37
Trade finance	3,733	56.18	3,934	70.33
Loans for use outside Hong Kong*	277,884	46.84	265,541	54.34
Total advances to customers	500,631	62.02	473,776	65.70

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

	2018		2017	
	Gross advances	% of gross advances covered by collateral	Gross advances	% of gross advances covered by collateral
	HK$ Mn	%	HK$ Mn	%
Property development	45,304	49.98	44,416	54.04
Property investment	24,020	95.23	29,176	92.32
Financial concerns	30,924	5.70	33,431	6.24
Wholesale and retail trade	9,057	55.60	13,058	58.37
Manufacturing	6,673	26.08	7,176	30.41
Loans for the purchase of other residential properties	13,879	99.97	15,181	99.94
Others	55,159	19.96	38,716	33.62
	185,016	42.67	181,154	50.24

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:

	2018	2017
	HK$ Mn	HK$ Mn
(i) Property development		
a. Individually impaired loans	749	316
b. Specific provisions	-	-
c. Collective provisions	249	420
d. New provision charged to income statement	188	92
e. Written off	50	26
(ii) Property investment		
a. Individually impaired loans	150	792
b. Specific provisions	94	113
c. Collective provisions	314	425
d. New provision charged to income statement	310	197
e. Written off	264	118
(iii) Loans for purchase of residential properties		
a. Individually impaired loans	278	296
b. Specific provisions	8	3
c. Collective provisions	201	214
d. New provision charged to income statement	158	12
e. Written off	8	4
(iv) Financial concerns		
a. Individually impaired loans	-	1
b. Specific provisions	-	1
c. Collective provisions	103	409
d. New provision charged to income statement	41	166
e. Written off	-	-

The specific provisions represent lifetime expected credit loss provisions (2017: individual impairment allowance) for credited impaired exposures and the collective provisions represent the 12-month and lifetime expected credit loss provisions (2017: collective impairment allowance) for non-credit impaired exposures.

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

The information concerning the breakdown of the gross amount of advances to customers by countries or geographical areas is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. The analysis of impairment provisions follow the terminology used by the HKMA. The specific provisions represent lifetime expected credit loss provisions (2017: individual impairment allowance) for credit impaired exposures and the collective provisions represent the 12-month and lifetime expected credit loss provisions (2017: collective impairment allowance) for non-credit impaired exposures.

	2018				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Specific provisions	Collective provisions
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Hong Kong	225,656	367	559	224	260
Mainland China	203,377	2,405	2,515	776	871
Other Asian Countries and Regions	27,634	121	396	61	117
Others	43,964	-	21	-	38
Total	500,631	2,893	3,491	1,061	1,286
% of total advances to customers			0.70%		
Market value of collateral held against impaired advances to customers			2,414		

	2017				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Specific provisions	Collective provisions
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Hong Kong	207,523	1,746	1,997	336	498
Mainland China	203,128	2,039	2,758	682	1,721
Other Asian Countries and Regions	27,456	191	390	41	68
Others	35,669	1	32	-	91
Total	473,776	3,977	5,177	1,059	2,378
% of total advances to customers			1.09%		
Market value of collateral held against impaired advances to customers			4,329		

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

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

21. Investment Securities

	2018				
	Mandatorily measured at FVTPL	Designated at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Treasury bills (including Exchange Fund Bills)	-	-	26,594	1,915	28,509
Certificates of deposits held	-	-	1,191	1,109	2,300
Debt securities	10,663	1,630	81,574	15,997	109,864
Equity securities	2,513	-	688	-	3,201
Investment funds	855	-	-	-	855
	14,031	1,630	110,047	19,021	144,729

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

Equity securities designated at FVOCI

At 1st January, 2018, the Group designated certain equity securities as shown in the following table at FVOCI. In 2017, these investments were classified as available-for-sale and measured at fair value. The FVOCI designation was made because the investments are expected to be held for long-term strategic purposes.

	2018	
	Fair value	Dividend income recognised
	HK$ Mn	HK$ Mn
Aberdeen Restaurant Enterprises Limited	2	-
EPS Company (Hong Kong) Limited	47	7
Joint Electronic Teller Services Ltd.	18	2
Nova Credit Limited	11	-
OTC Clearing Hong Kong Limited	14	-
TransUnion Limited	70	11
China International Payment Service Corporation	35	-
China UnionPay Co., Ltd.	481	2
Euroclear Plc	8	1
Society For World-Wide Interbank Financial Telecommunication	2	-
	688	23

None of these strategic investments was disposed of during 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

	2017				
	Designated at FVTPL	Available-for-sale	Held-to-maturity	Loans and receivables *(Note 22)*	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Treasury bills (including Exchange Fund Bills)	-	27,024	1,699	-	28,723
Certificates of deposits held	-	1,150	1,269	-	2,419
Debt securities	3,879	88,560	6,830	133	99,402
Equity securities	166	3,042	-	-	3,208
Investment funds	124	549	-	-	673
	4,169	120,325	9,798	133	134,425

22. Other Assets

	2018	2017 Restated *Note*
	HK$ Mn	HK$ Mn
Accrued interest	3,466	2,578
Customer liabilities under acceptances	21,747	18,309
Other accounts*	9,294	11,622
Less: Impairment allowances	(291)	(16)
- Stage 1	(27)	-
- Stage 2	(6)	-
- Stage 3	(258)	-
- Individual	-	(14)
- Collective	-	(2)
	34,216	32,493
Assets held for sale *(Note 28)*	688	466
	34,904	32,959

** Include nil contract assets (1/1/2018: nil) from contracts with customers under HKFRS 15.*

Note: HK$133 million of debt securities classified as loans and receivables were represented in Investment Securities (see Note 21) in order to conform to current year's presentation.

23. Segment Reporting

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

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

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

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

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

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

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

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

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

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. Other than reporting inter-segment income, assistance provided by one segment to another, including sharing of assets, is not measured.

	2018											
	Hong Kong banking operations											
	Personal banking	Corporate banking	Treasury markets	Wealth management	Financial institutions	Others	Mainland China operations	Overseas operations	Total reportable segments	Others	Inter-segment elimination	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
CONTINUING OPERATIONS												
Net interest income/ (expense)	4,053	1,916	(121)	425	18	167	3,800	1,593	11,851	1,103	5	12,959
Non-interest income/ (expense)	841	451	(41)	349	23	491	1,138	281	3,533	925	(345)	4,113
Operating income	4,894	2,367	(162)	774	41	658	4,938	1,874	15,384	2,028	(340)	17,072
Operating expenses	(1,597)	(202)	(149)	(209)	(12)	(416)	(3,386)	(683)	(6,654)	(2,249)	340	(8,563)
Operating profit/(loss) before impairment losses	3,297	2,165	(311)	565	29	242	1,552	1,191	8,730	(221)	-	8,509
Impairment losses on financial instruments	(149)	(129)	(43)	7	(1)	(6)	(1,033)	166	(1,188)	-	-	(1,188)
Impairment losses on intangible assets	-	-	-	-	-	-	(5)	-	(5)	-	-	(5)
Impairment losses on associate	-	-	-	-	-	-	-	(397)	(397)	-	-	(397)
Operating profit/(loss) after impairment losses	3,148	2,036	(354)	572	28	236	514	960	7,140	(221)	-	6,919
Profit/(Loss) on sale of fixed assets and financial assets measured at FVOCI	(8)	-	51	-	-	5	4	1	53	-	-	53
Profit/(Loss) on sale of disposal groups and assets held for sale	-	-	-	-	-	-	(2)	11	9	47	-	56
Profit/(Loss) on disposal of subsidiaries/associates	-	-	-	-	-	-	2	(1)	1	-	-	1
Valuation gains on investment properties	-	-	-	-	-	-	-	-	-	465	-	465
Share of profits less losses of associates	-	-	-	-	-	(1)	118	449	566	-	-	566
Profit/(Loss) before taxation	3,140	2,036	(303)	572	28	240	636	1,420	7,769	291	-	8,060
Depreciation for the year	(65)	(1)	(5)	(2)	-	(11)	(202)	(30)	(316)	(157)	-	(473)
Segment assets	103,770	149,307	177,221	24,170	7,041	21,770	288,354	111,576	883,209	16,306	(69,881)	829,634
Investments in associates	-	-	-	-	-	52	3,637	5,440	9,129	-	-	9,129
Other assets – Assets held for sale	-	-	-	-	-	268	49	363	680	8	-	688
Total assets	103,770	149,307	177,221	24,170	7,041	22,090	292,040	117,379	893,018	16,314	(69,881)	839,451
Segment liabilities	336,654	795	59,743	23,378	20	17,925	240,872	101,181	780,568	2,477	(47,176)	735,869
Other liabilities – Liabilities held for sale	-	-	-	-	-	7	-	-	7	-	-	7
Total liabilities	336,654	795	59,743	23,378	20	17,932	240,872	101,181	780,575	2,477	(47,176)	735,876
Capital expenditure incurred during the year	157	-	8	-	-	15	130	19	329	335	-	664

	2017											
	Hong Kong banking operations											
	Personal banking	Corporate banking	Treasury markets	Wealth management	Financial institutions	Others	Mainland China operations	Overseas operations	Total reportable segments	Others	Inter-segment elimination	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
CONTINUING OPERATIONS												
Net interest income	3,352	1,934	19	380	21	237	3,834	1,515	11,292	540	-	11,832
Non-interest income	816	376	20	452	19	914	742	246	3,585	884	(348)	4,121
Operating income	4,168	2,310	39	832	40	1,151	4,576	1,761	14,877	1,424	(348)	15,953
Operating expenses	(1,603)	(190)	(219)	(201)	(11)	(447)	(3,034)	(605)	(6,310)	(2,105)	348	(8,067)
Operating profit/(loss) before impairment losses	2,565	2,120	(180)	631	29	704	1,542	1,156	8,567	(681)	-	7,886
Impairment losses on financial instruments	(158)	(405)	(2)	(1)	-	(9)	(1,151)	(14)	(1,740)	(4)	-	(1,744)
Impairment losses on assets held for sale	-	-	-	-	-	-	(63)	-	(63)	-	-	(63)
Impairment losses on intangible assets	-	-	-	-	-	-	(650)	-	(650)	-	-	(650)
Operating profit/(loss) after impairment losses	2,407	1,715	(182)	630	29	695	(322)	1,142	6,114	(685)	-	5,429
Profit/(Loss) on sale of fixed assets, held-to-maturity investments and available-for-sale financial assets	(14)	14	1,027	-	-	16	(5)	-	1,038	3	-	1,041
Profit/(Loss) on sale of disposal groups and assets held for sale	-	-	-	-	-	4	(13)	-	(9)	192	-	183
Profit on disposal of subsidiaries/ associates	-	-	-	-	-	-	-	-	-	2	-	2
Valuation gains on investment properties	-	-	-	-	-	-	-	1	1	521	-	522
Share of profits less losses of associates	-	-	-	-	-	4	92	292	388	-	-	388
Profit/(Loss) before taxation	2,393	1,729	845	630	29	719	(248)	1,435	7,532	33	-	7,565
Depreciation for the year	(62)	(1)	(5)	(3)	-	(13)	(202)	(34)	(320)	(146)	-	(466)
Segment assets	81,889	148,083	164,908	26,284	5,237	21,123	299,726	107,804	855,054	13,555	(69,562)	799,047
Investments in associates	-	-	-	-	-	54	3,414	5,961	9,429	-	-	9,429
Other assets – Assets held for sale	-	-	-	-	-	351	76	39	466	-	-	466
Total assets	81,889	148,083	164,908	26,284	5,237	21,528	303,216	113,804	864,949	13,555	(69,562)	808,942
Segment liabilities	309,279	902	53,725	21,606	5	16,762	251,933	98,057	752,269	2,509	(47,059)	707,719
Other liabilities – Liabilities held for sale	-	-	-	-	-	9	-	-	9	-	-	9
Total liabilities	309,279	902	53,725	21,606	5	16,771	251,933	98,057	752,278	2,509	(47,059)	707,728
Capital expenditure incurred during the year	146	-	-	-	-	13	95	24	278	131	-	409

24. Off-balance Sheet Exposures

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

	2018	2017
	HK$ Mn	HK$ Mn
Contractual amounts of contingent liabilities		
Direct credit substitutes	14,629	12,319
Transaction-related contingencies	883	817
Trade-related contingencies	2,997	1,490
	18,509	14,626
Contractual amounts of commitments		
Commitments that are unconditionally cancellable without prior notice	141,668	170,099
Other commitments with an original maturity		
- up to 1 year	9,332	7,766
- over 1 year	26,710	26,577
	177,710	204,442
Total	196,219	219,068
Credit risk weighted amounts	23,531	31,289
Fair value of derivatives		
Assets		
Exchange rate contracts	6,783	8,806
Interest rate contracts	2,919	2,258
Equity contracts	507	256
Others	2	15
	10,211	11,335
Liabilities		
Exchange rate contracts	6,191	9,599
Interest rate contracts	2,816	1,924
Equity contracts	472	534
Others	17	20
	9,496	12,077
Notional amounts of derivatives		
Exchange rate contracts	723,848	699,544
Interest rate contracts	411,325	511,219
Equity contracts	11,880	19,757
Others	266	1,342
	1,147,319	1,231,862
Credit risk weighted amounts*		
Exchange rate contracts	2,843	4,230
Interest rate contracts	414	455
Equity contracts	122	92
Others	363	349
	3,742	5,126

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

* *The Bank adopted the Foundation Internal Ratings Based approach according to Capital Rules for calculating the credit risk weighted amount as at 31st December, 2018 and 31st December, 2017.*

25. Reserves

	2018 HK$ Mn	2017 HK$ Mn
General reserve	14,054	14,060
Revaluation reserve on bank premises	1,752	1,757
Capital reserve	933	230
Exchange revaluation reserve	(1,426)	487
Capital reserve – staff share options issued	158	135
Fair value reserve	664	1,454
Hedging reserve	15	11
Liability credit reserve	(3)	-
Other reserves	4,963	4,931
Retained profits*	30,791	28,890
	51,901	51,955
Dividends declared, not provided for	1,906	1,659

* *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, 2018, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Bank to shareholders by HK$5,112 million (2017: HK$4,062 million).*

26. Non-adjusting Events after the Reporting Period

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

27. Comparative Figures

Certain 2017 comparative figures have been restated to conform to current year's presentation. Please refer to Consolidated Statement of Financial Position, Notes 6, 18 and 22 for the effect of restatement.

28. 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 wholly-owned subsidiary of global investment firm, Permira, 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. Tricor was 75.61% owned by the Bank and 24.39% owned by NWS Holdings, in each case through East Asia Secretaries. On 31st March, 2017, the Bank completed the disposal of Tricor to Trivium. Following completion of the disposal, the Bank has ceased to hold any equity interest in Tricor and Tricor has ceased to be a subsidiary of the Bank. A net profit of HK$3,005 million in respect of the disposal was recorded and included in the profits attributable to owners of the parent from discontinued operations. Tricor's operating results are reported as discontinued operations in the consolidated income statement for the year 2017.

On 29th November, 2017, the Bank and its wholly-owned subsidiary, Credit Gain Finance Company Limited entered into an equity transfer agreement with China Financial Services Holdings Limited for the sale and purchase of all equity interests in Shenzhen Credit Gain Finance Company Limited ("Shenzhen Credit Gain"), Chongqing Liangjiang New Area Credit Gain Finance Company ("Chongqing Credit Gain") and Chongqing Dongrong Business Consultancy Company Limited ("Chongqing Dongrong") ("collectively, the "China Disposal"). The total consideration of the China Disposal is RMB563 million, subject to mutually agreed adjustments upon completion. The completion of the China Disposal is subject to the requisite Chinese regulatory approvals. Shenzhen Credit Gain, Chongqing Credit Gain and Chongqing Dongrong's assets and liabilities as at 31st December, 2018 and 31st December 2017 are presented separately as assets held for sale and liabilities held for sale respectively in the consolidated financial statements.

On 29th October, 2018, the Bank entered into a sale and purchase agreement with The Bank of Yokohama, Ltd. ("BOY") for the sale of 30% of the issued shares of P.T. Bank Resona Perdania ("BRP"), held via a special purpose vehicle, East Asia Indonesian Holdings Limited, to BOY (the "Disposal"). Completion of the Disposal is subject to the approval of the regulator of the financial services sector in Indonesia, Otoritas Jasa Keuangan. The transaction, if and when consummated, has no material impact on the Group's net income or capital ratios. The investment in BRP is classified and presented as assets held for sale in the consolidated financial statements for the year 2018.

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

	2018	2017
	HK$ Mn	HK$ Mn
Interest income	-	1
Interest expense	-	(1)
Net interest income	-	-
Fee and commission income	-	312
Fee and commission expense	-	-
Net fee and commission income	-	312
Net trading losses	-	(4)
Non-interest income	-	308
Operating income	-	308
Operating expenses	-	(232)
Operating profit before impairment losses	-	76
Impairment losses on financial assets	-	(2)
Operating profit after impairment losses	-	74
Net profit on sale of discontinued operations	-	4,084
Share of profits less losses of associates	-	1
Profit for the year before taxation	-	4,159
Income tax		
Current tax		
- Hong Kong	-	(8)
- Outside Hong Kong	-	(6)
Profit for the year from discontinued operations	-	4,145

	2018	2017
	HK$	HK$
Earnings per share for profit attributable to the equity holders of the Bank		
Basic and diluted		
- profit from discontinued operations	-	1.12

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

	2018	2017
	HK$ Mn	HK$ Mn
ASSETS		
Cash and balances with banks and other financial institutions	6	4
Loans and advances to customers	228	307
Gross loans and advances to customers	230	317
Less: Impairment allowances		
- Stage 1	(1)	-
- Stage 2	-	-
- Stage 3	(1)	-
- Collective	-	(10)
Fixed assets	8	9
- Investment properties	-	-
- Other properties and equipment	8	9
Deferred tax assets	18	25
Other assets	8	6
Assets held for sale	268	351
LIABILITIES		
Other liabilities	7	9
Liabilities held for sale	7	9

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

	2018	2017
	HK$ Mn	HK$ Mn
Assets held for sale *(Note 22)*		
Disposal groups held for sale	268	351
Other properties	57	115
Investment in associate	363	-
	688	466
Liabilities held for sale		
Disposal groups held for sale	7	9

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

	2018	2017
	HK$ Mn	HK$ Mn
Cumulative income recognised in other comprehensive income	(68)	(34)

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital Adequacy

	2018	2017
	HK$ Mn	HK$ Mn
Capital base		
- Common Equity Tier 1 capital	74,513	72,786
- Additional Tier 1 capital	10,312	10,666
- Total Tier 1 capital	84,825	83,452
- Tier 2 capital	14,202	14,672
- Total capital	99,027	98,124
Risk weighted assets by risk type		
- Credit risk	428,383	496,034
- Market risk	18,671	28,161
- Operational risk	31,934	31,005
	478,988	555,200
Less: Deductions	(3,274)	(3,332)
	475,714	551,868

	2018	2017
	%	%
Common Equity Tier 1 capital ratio	15.7	13.2
Tier 1 capital ratio	17.8	15.1
Total capital ratio	20.8	17.8

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

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 Disclosures" link on the home page of the Bank's website at www.hkbea.com or at the following direct link: www.hkbea.com/regulatory_disclosures

B. Leverage Ratio

	2018	2017
	HK$ Mn	HK$ Mn
Total Tier 1 capital	84,825	83,452
Exposure measure	862,785	833,035
	%	%
Leverage ratio	9.8	10.0

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 can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at www.hkbea.com or at the following direct link: www.hkbea.com/regulatory_disclosures

C. Liquidity Position

		2018	2017
		%	%
Average liquidity coverage ratio	- First quarter	137.8	150.7
	- Second quarter	144.8	129.5
	- Third quarter	153.0	136.5
	- Fourth quarter	180.5	151.7

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

D. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

	2018		2017	
	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	970	0.2	576	0.1
- 1 year or less but over 6 months	428	0.1	765	0.2
- Over 1 year	1,495	0.3	2,636	0.5
	2,893	0.6	3,977	0.8
Rescheduled advances to customers	110	0.0	108	0.0
Total overdue and rescheduled advances	3,003	0.6	4,085	0.8
Covered portion of overdue advances	2,159	0.4	3,241	0.7
Uncovered portion of overdue advances	734	0.2	736	0.1
Current market value of collateral held against the covered portion of overdue advances	4,273		4,508	
Specific provisions made on advances overdue for more than 3 months	789		931	

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

	2018	2017
	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

	2018		
	Accrued interest	Debt securities	Other assets*
	HK$ Mn	HK$ Mn	HK$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	19	-	-
- 1 year or less but over 6 months	8	-	-
- Over 1 year	281	-	1
	308	-	1
Rescheduled assets	1	-	-
Total other overdue and rescheduled assets	309	-	1

	2017		
	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	-	-
- 1 year or less but over 6 months	-	-	-
- Over 1 year	-	-	1
	1	-	1
Rescheduled assets	-	-	-
Total other overdue and rescheduled assets	1	-	1

* *Other assets refer to trade bills and receivables.*

(d) Repossessed assets

	2018	2017
	HK$ Mn	HK$ Mn
Repossessed land and buildings*	147	1,485
Repossessed vehicles and equipment	-	-
Repossessed machines	-	-
Total repossessed assets	147	1,485

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

* *The balance included HK$58 million (2017: HK$5 million) relating to properties that were contracted for sale but not yet completed.*

E. Banking Disclosure Statement

Additional information disclosures for this year which are prepared in accordance with the Banking (Disclosure) Rules and disclosure templates issued by the Hong Kong Monetary Authority can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at www.hkbea.com or at the following direct link: www.hkbea.com/regulatory_disclosures

STATEMENT OF COMPLIANCE

(1) In preparing the accounts for 2018, 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, employees and other relevant stakeholders; and in upholding accountability and transparency.

(3) During the financial year ended 31st December, 2018, 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. 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, 2018, the Bank has followed the modules on CG-1, CG-5, Guidance on Empowerment of INEDs and circular on Bank Culture Reform.

PAYMENT OF SECOND INTERIM DIVIDEND FOR 2018 AND 100TH ANNIVERSARY SPECIAL DIVIDEND

The Board has declared a second interim dividend for the year ended 31st December, 2018 of HK$0.32 per Share (2017 Second Interim Dividend: HK$0.60 per Share), and in addition, the Directors also declared payment of a 100th anniversary special dividend of HK$0.35 per Share, together making a total amount of HK$0.67 per Share ("**2018 Second Interim Dividend and Special Dividend**"). Together with the 2018 interim dividend of HK$0.51 per Share paid in October 2018, it will constitute a total dividend of HK$1.18 per Share (2017 total dividend: HK$1.28 per Share) for the full year. The 2018 Second Interim Dividend and Special Dividend will be paid on or about Monday, 8th April, 2019 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 Friday, 15th March, 2019. For the purpose of calculating the number of new Shares to be allotted under the Scrip Dividend Scheme, the market value of the new Shares means 95% of the average closing price of the Shares on the Stock Exchange from Tuesday, 12th March, 2019 (being the first day that the Shares will be traded ex-dividend) to Monday, 18th March, 2019 (both days inclusive). Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Friday, 15th March, 2019.

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 Monday, 8th April, 2019.

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 2018 Second Interim Dividend and Special Dividend, the Register of Members of the Bank will be closed on Thursday, 14th March, 2019 and Friday, 15th March, 2019. In order to qualify for the 2018 Second Interim Dividend and Special Dividend, all transfer documents accompanied by the relevant share certificates 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, 13th March, 2019.

(b) For the purpose of determining shareholders who are entitled to attend and vote at the 2019 AGM, the Register of Members of the Bank will be closed from Friday, 26th April, 2019 to Friday, 3rd May, 2019 (both days inclusive). In order to qualify for attending and voting at the 2019 AGM, all transfer documents accompanied by the relevant share certificates 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 Thursday, 25th April, 2019.

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

On 16th March, 2018, the Bank completed the redemption of a face value of US$15 million of 2.25% Senior Notes (the "2018 USD Senior Notes") upon their maturity. The 2018 USD Senior Notes were issued in 2015 under the Bank's Medium Term Note Programme and listed on the Singapore Exchange.

Save for the redemption of the 2018 USD Senior Notes as disclosed herein, there was no purchase, sale or redemption by the Bank or any or its subsidiaries, of listed securities of the Bank during the year ended 31st December, 2018.

CHAIRMAN'S STATEMENT

The Bank of East Asia celebrated a century of service to our customers at the beginning of 2019. We first opened our doors for business on 4th January, 1919, and it has been a great privilege to serve the people of Hong Kong, Greater China and the wider world ever since.

My colleagues and I have been deeply touched by the warm outpouring of support that we have received from friends near and far on our centenary. We thank all our stakeholders for making our 100th anniversary possible and for joining us on our ongoing journey.

Enriching the customer experience

Serving customers well is at the core of our ability to grow. As customer preferences and needs have evolved, so have we.

We continue to make it easier, more convenient and more cost-efficient for our customers to manage their financial affairs, whether every-day transactions or important financial decisions.

As more of our services migrate to our mobile and internet platforms, our customers increasingly work to their schedules and not to ours. In 2018, we made significant headway in our drive to offer straight-through digital solutions, introducing a revamped mobile app, upgrading our internet portal and re-engineering our back-office processes.

To safeguard our customers, we place great importance on cybersecurity and data privacy, with continual stress-testing of our network infrastructure. Our corporate governance structure remains robust and we have a comprehensive risk framework, both of which we continually refine and enhance.

In 2018, we also revisited our core values and initiated a programme to reinvigorate our organisational culture. Our objective is to ensure that every customer experience is positive. We work to fulfil this mission every single day by offering best-in-class financial products and services.

Reinforcing resilience

The past century has been an era of remarkable change. Throughout, we have exercised foresight and demonstrated great resilience. In the current dynamic environment, we have taken key decisions to make us stronger going forward.

First, we have made ourselves leaner. Three years ago, we embarked on a HK$700-million cost-saving plan. This initiative was successfully completed in 2018. With enhanced efficiency and streamlined operations, we are able to do more with less.

Second, we have reduced our exposure to stressed sectors and prioritised asset quality over loan growth. I am pleased to report that, as a result, our asset quality is steadily improving and the Group-wide impaired loan ratio fell from 1.09% in December 2017 to 0.70% in December 2018.

Third, we are enhancing our product range to serve our customers better and diversify our income sources. During the past year, we refined our customer segmentation strategy to better serve small and medium enterprises. Additionally, we introduced debt capital market services to assist companies to proactively manage their finances. We strengthened our treasury and trade finance services, and expanded our cross-border capability.

We will be launching additional initiatives to further increase fee income in 2019, focussing on our mobile first strategy, wealth management and asset management services.

Embracing innovation

For decades, our Bank has been a leader in applying technology to banking. Today, we are expanding the range of products available through our digital channels and strengthening our big data and artificial intelligence capabilities in order to better serve all our retail and corporate customers.

During the course of our growth, we have also learned the value of working with partners to achieve synergistic results. Importantly, partnerships have enabled us to capture new opportunities in the Mainland fintech market. We will be deepening and expanding these relationships in order to augment our customer base and judiciously advance our consumer loan portfolio.

While controlling costs remains important, so is investing for growth. We are focussed on deploying resources to achieve sound returns on invested capital over the long term. In the short term, we anticipate that operating costs will increase moderately in 2019.

Serving our community

We are committed to integrating sustainability into our core business activities and contributing to our community.

Last year, we supported a wide range of philanthropic initiatives, with an emphasis on education and social welfare. Supporting our community and helping businesses and individuals realise their potential make what we do truly worthwhile.

Outlook

With geopolitical and trade tensions at a high level, and economic growth slowing, financial markets are likely to remain volatile in 2019. Despite these concerns, we see significant opportunities as the Mainland continues to open up its financial sector and as the Guangdong-Hong Kong-Macao Greater Bay Area initiative gains momentum.

Our overseas branches will continue to work with our Head Office and BEA China to further develop cross-border financing business, particularly for Mainland companies that are seeking new opportunities in overseas markets.

With our customer-centric approach, resilience and innovative spirit, I am confident we are well poised to make the most of the opportunities and manage any challenges we may face.

My deep and heartfelt thanks go to a very talented management team and thousands of exceptional colleagues who are all vital to realising our mission. I must also express my appreciation to the Bank's Board of Directors and the Directors of our subsidiaries and associated companies for their support and invaluable advice during the past year. My gratitude also goes to our business partners for their significant contributions. I look forward to further collaborative growth.

To our customers and shareholders, your loyalty and encouragement are never taken for granted. As we have over our first 100 years of service, we remain dedicated to earning and keeping your trust and support, and to serving all our stakeholders to the very best of our ability for the next 100 years.

David LI Kwok-po
Chairman & Chief Executive

Hong Kong, 27th February, 2019

REPORT OF THE SENIOR MANAGEMENT

FINANCIAL REVIEW

Financial Performance

For the year 2018, the Group earned a profit attributable to owners of the parent of HK$6,509 million, representing a decrease of HK$2,838 million or 30.4%, compared with the HK$9,347 million earned in 2017. Basic earnings per share fell from HK$3.21 in 2017 to HK$2.07 in 2018. Return on average assets fell from 1.1% to 0.7%, while the return on average equity fell from 10.3% to 6.3%.

Excluding the gain from discontinued operations recorded in 2017, which totalled HK$3,049 million, profit attributable to owners of the parent increased by HK$211 million, or 3.4%. Basic earnings per share from continuing operations fell from HK$2.09 in 2017 to HK$2.07 in 2018. Return on average assets from continuing operations remained flat at 0.7%, while the return on average equity from continuing operations fell from 6.7% to 6.3%.

The Group's net interest income from continuing operations increased by HK$1,127 million, or 9.5%, to HK$12,959 million. Net interest margin increased from 1.65% to 1.73%, and average interest bearing assets increased by 4.6%.

Net fee and commission income from continuing operations grew by HK$160 million, or 6.5%, to HK$2,653 million. Net trading and hedging results and net results from financial instruments designated/ mandatory at fair value through profit or loss from continuing operations increased by HK$192 million, or 34.2%, to HK$751 million.

Net insurance revenue from continuing operations decreased by HK$392 million, or 57.1%, to HK$295 million, mainly due to the inclusion of a net revaluation loss of HK$424 million on financial assets mandatory at fair value through profit or loss following the adoption of HKFRS 9 in 2018 and a disposal gain of HK$216 million on available-for-sale financial assets in 2017 due to the transition to HKFRS 9. (Prior to 2018, these financial assets were classified as available-for-sale, with the revaluation gain/loss put through other comprehensive income.)

Overall, non-interest income from continuing operations fell by 0.2% to HK$4,113 million. Operating income from continuing operations increased by 7.0% to HK$17,072 million.

Total operating expenses from continuing operations rose by 6.1% to HK$8,563 million. This rise was mainly attributable to the increase in staff costs at Group level, and expenses incurred for new business initiatives and partnerships in China (including card expenses and internet platform charges) in 2018. Given that operating income increased by HK$1,119 million, or 7.0%, the cost-to-income ratio improved from 50.6% in 2017 to 50.2% in 2018.

Operating profit before impairment losses from continuing operations stood at HK$8,509 million, an increase of HK$623 million, or 7.9%, when compared with 2017.

Under HKFRS 9, there was a net charge of impairment losses on financial instruments of HK$1,188 million in 2018, as compared to a net impairment charge on loans and receivables of HK$1,744 million under HKAS 39 in 2017. The Group's impaired loan ratio improved from 1.09% at the end of 2017 to 0.70% at the end of 2018. The impaired loan ratio for Hong Kong operations improved from 0.91% to 0.29%, while that for Mainland China operations improved from 1.79% to 1.73%. In addition, there was an impairment loss of HK$397 million on an investment in an associated company in 2018.

Operating profit after impairment losses from continuing operations amounted to HK$6,919 million, an increase of HK$1,490 million, or 27.4%.

Net profit on the sale of financial assets measured at fair value through other comprehensive income/ available-for-sale from continuing operations decreased by 94.2% to HK$62 million. Upon transition to HKFRS 9 on 1st January, 2018, any unrealised gains/losses of available-for-sale financial assets that are required to be reclassified as fair value through profit or loss as of 31st December, 2017 have to be transferred from the revaluation reserve to the opening balance of retained earnings at 1st January, 2018, and cannot be recycled to the profit and loss account upon subsequent disposal. Hence, the Group has chosen to dispose of such available-for-sale financial assets before the end of 2017, as far as practicable.

Net profit on sale of disposal group and assets held for sale from continuing operations in 2018 decreased by HK$127 million, or 69.3%, mainly due to a profit of HK$192 million on disposal of a property in Hong Kong in 2017. Valuation gains on investment properties from continuing operations in 2018 amounted to HK$465 million.

The Group shared after-tax profits from associates of HK$566 million from continuing operations, an increase of HK$178 million, or 45.8% compared to 2017.

After accounting for income taxes, profit after taxation from continuing operations rose to HK$6,554 million, an increase of 2.9% compared to the HK$6,370 million recorded in 2017.

Financial Position

Total consolidated assets of the Group stood at HK$839,451 million at the end of 2018, an increase of 3.8% compared to HK$808,942 million at the end of 2017.

Gross advances to customers rose by 5.7% to HK$500,631 million, while gross trade bills negotiated grew by 5.3% to HK$14,650 million.

Total equity attributable to owners of the parent increased to HK$91,826 million, up 2.6%, mainly due to the net profit of HK$6,509 million earned during the year 2018.

Debt securities issued decreased to HK$564 million, down 44.0%.

Total deposits from customers increased by 0.4% to HK$574,114 million. Of the total, demand deposits and current account balances decreased by HK$13,566 million, or 15.9%; savings deposits decreased by HK$3,492 million, or 2.6%; and time deposits increased by HK$19,488 million, or 5.5%. Total deposit funds, comprising deposits from customers and all certificates of deposit issued, increased by 4.0% to HK$632,604 million.

The loan-to-deposit ratio stood at 79.1% at the end of 2018, compared to 77.9% at the end of 2017.

As at 31st December, 2018, the total capital ratio, tier 1 ratio, and common equity tier 1 ratio were 20.8%, 17.8%, and 15.7%, respectively. The average liquidity coverage ratio for the quarter ended 31st December, 2018 was 180.5%, which was well above the statutory minimum of 90% for the year 2018.

RATINGS

S&P Global Ratings

The Bank of East Asia, Limited	
Long-term Counterparty Credit (local and foreign currency)	A-
Short-term Counterparty Credit (local and foreign currency)	A-2
Outlook	Stable
The Bank of East Asia (China) Limited	
Long-term Counterparty Credit (local and foreign currency)	A-
Short-term Counterparty Credit (local and foreign currency)	A-2
Outlook	Stable

Moody's Investor Service

The Bank of East Asia, Limited	
Long-term Bank Deposit (local and foreign currency)	A3
Short-term Bank Deposit (local and foreign currency)	Prime-2
Outlook	Stable

MAJOR RECOGNITION

The Bank of East Asia, Limited

1. Quamnet Outstanding Enterprise Awards 2017 – "Outstanding SME Service Provider (Bank)" (for the fifth consecutive year)
– Quam (H.K.) Limited

2. 2018 Best SME's Partner Award (for the eleventh consecutive year)
– The Hong Kong General Chamber of Small and Medium Business

3. CAPITAL Merits of Achievement in Banking and Finance 2018 – "Capital Merits of Cross-border Business Award" (for the second consecutive year)
- *CAPITAL Magazine*

4. Outstanding Import and Export Industry Partner Award (for the fifth consecutive year)
- *The Hong Kong Chinese Importers' & Exporters' Association*

5. "Outstanding Intelligent Digital Branch" in the FinTech Awards 2017
- *ET Net*

6. "Excellence of the Year for Innovation, Banking, China" in the Le Fonti Awards
- *Le Fonti*

7. "The Best Retail Bank in Hong Kong" and "The Best Digital Distribution Network of the Year" in the Asian Banker Excellence in Retail Financial Services Awards 2018
- *The Asian Banker*

8. The Excellence Award in "Branch Innovation", Outstanding Award in "Retail Banking", "Mobile Usability", and "Integrated Marketing" in the Financial Institution Awards 2018
- *Bloomberg Businessweek (Chinese Edition)*

9. "Most Innovative Online Payment Platform with Mastercard® Send™ – BEA i-Payment Hub" and "Best Youth Card Program – BEA i-Titanium Card"
- *Mastercard*

10. "Banking – Branch Services Award" in the Sing Tao Service Awards 2017
- *Sing Tao Daily*

11. "Best Digital Bank in Hong Kong" in the Asiamoney Best Bank Awards 2018
- *Asiamoney*

12. "Outstanding Personal Banking Mobile App" in the Hong Kong Digital Brand Awards 2018
- *Metro Broadcast and The Chamber of Hong Kong Computer Industry*

13. BENCHMARK Private Wealth Awards 2017 – "Bronze Winner for China Team of the Year"
- *WealthAsia Media Limited*

14. Best Private Bank in Greater China 2018
- *Global Brands Magazine*

The Bank of East Asia (China) Limited

15. "2018 The Best Foreign Bank in Brand-building" in the 2018 Golden-shell Award of China
- *21st Century Business Herald*

16. "2018 Annual Best Wealth Management Bank" in the 9th Golden Tripod Award
- *National Business Daily*

17. *"Best Bank for Cross-Border Trade" in the Stars of China Awards, 2018*
- *Global Finance Magazine*

18. "Best Foreign Bank" in the 2017 Wealth Management Registration
- *China Banking Wealth Management Registration & Depository Co., Ltd.*

19. 2017 Active Local Currency Market Interbank Trader
- *China Foreign Exchange Trade System & National Interbank Funding Center*

20. "Outstanding Institution for Proprietary Trading" in the 2017 Best Member of CCDC Award
- *China Central Depository & Clearing Co., Ltd.*

21. "2018 Annual Foreign Bank" in the 2018 Top Financial selection
- *The Paper*

Bank of East Asia (Trustees) Limited

22. "The Best MPF Trustee" in the Metro Awards for Banking & Finance Corporations 2018
- *Metro Prosperity and Metro Daily*

Blue Cross (Asia-Pacific) Insurance Limited

23. "Banking & Finance Awards 2018 – Excellence Award for Online Marketing of Travel Insurance Product"
- *Sky Post*

BEA Union Investment Management Limited

24. The Asset Benchmark Research 2018 – One of the Top Investment Houses in Asian Local Currency Bonds – Hong Kong
- *The Asset*

25. The Asset Benchmark Research 2018 – One of the Top Investment Houses in Asian G3 Bonds – Hong Kong
- *The Asset*

For the BEA Union Investment Asian Bond and Currency Fund

26. Best Bond Fund, Asia Pacific HC (for its 3-year performance)
- *Thomson Reuters Lipper Fund Award Programme 2018 Hong Kong*

27. Best Bond Fund, Asia Pacific HC (for its 5-year performance)
- *Thomson Reuters Lipper Fund Award Programme 2018 Hong Kong*

BUSINESS REVIEW

The global economy performed well in the first half of 2018, with most regions experiencing above expected growth. However, with the escalation of the United States-China trade dispute in the latter half of 2018, performance in China and emerging markets trailed lower.

Despite the headwinds, Hong Kong's economy remained buoyant, expanding by a strong 3.7% in the first three quarters of 2018. Higher exports and private consumption led the gains, as unemployment fell to a 20-year low of 2.8%. However, asset markets underperformed, with rising interest rates and the US-China trade dispute taking their toll on sentiment. While Hong Kong residential property prices rose by 1.6% for 2018 as a whole, prices trended lower in the latter part of the year after hitting a peak in August.

For 2019, the adverse impact of the US-China trade dispute will not be limited to Hong Kong's direct trade with the US, but will also affect business activities of overseas firms using Hong Kong to manage their manufacturing and trade operations in Mainland China. Together with the correction of the property market, economic confidence will turn weaker. This will lower hiring sentiment and cause unemployment to rise. Hong Kong's gross domestic product is forecast to grow by 2.3% in 2019, while the inflation rate will soften to 2.0%.

On the Mainland, the export sector grew by a solid 9.9% in 2018 on the back of stronger global demand. However, most observers believe that the surge was powered by a rush to beat the tariffs, and is not sustainable. Both business and consumer confidence weakened, with the growth in retail sales slowing to 9.0% in 2018 from 10.2% in 2017. The central government's deleveraging efforts also weighed on sentiment, resulting in a cooling of property prices in first-tier cities.

Looking ahead, the Mainland economy is expected to experience further weakness in the coming year. China's exports to the US are expected to come under pressure if the trade disputes cannot be resolved. Slowing growth in Asia and Europe will also impact demand, and consumer sentiment is expected to weaken further. While the central government has launched a series of fiscal and monetary stimulus measures to stabilise the economy, this will not prevent economic growth from declining to the 6.2% range in 2019. Inflation will remain at close to 2.1%.

Business – Hong Kong

At the end of December 2018, the aggregate value of all customer loans and trade bills of BEA in Hong Kong was 9.1% higher than at the end of 2017. Customer loans were 9.4% higher, debt investments 5.3% higher and customer deposits 8.8% higher.

Retail Banking

BEA's retail operations were the Bank's primary growth engine in Hong Kong in 2018. Net interest income rose by 20.9% year-on-year on the back of higher average deposits and a widened deposit spread. Meanwhile, net fee and commission income registered a mild increase. Overall, operating income rose by 17.4% year-on-year.

Sales of investment products at the retail level recorded a moderate drop due to sluggish market conditions in the second half of the year, offsetting a strong performance in the first half. However, life insurance sales continued to perform well, with rises in both new premium income and commission income.

The Bank launched a number of initiatives to improve customer onboarding and drive new business in 2018. To enhance services for existing and potential Mainland clients, eleven cross-border financial centres were established in branches at prominent locations in Hong Kong. A number of branches offered extended office hours to capture increased tourist flows in the weeks following the opening of the Hong Kong-Zhuhai-Macao Bridge and the Guangzhou-Shenzhen-Hong Kong Express Rail Link. This arrangement resulted in a significant increase in new accounts from Mainland customers, and it will be implemented again during peak travel seasons.

Meanwhile, the Bank's popular mobile application was revamped in early 2018, adding advanced banking and lifestyle features. In particular, facial and optical character recognition allow customers to apply for credit cards and consumer loans via mobile with instant approval. Remote bank account opening is now available via i-Teller, and will be added to the mobile app in 2019.

At the back end, Robotic Process Automation is being implemented to assist with manual account opening procedures, increasing efficiency and reducing processing times. This solution will be extended to other processes across the Bank's business and operational units in the coming year.

The Bank will also deploy a new IT infrastructure in 2019, providing the agility to support the Hong Kong Monetary Authority's Open Application Programming Interface Framework. BEA will offer its APIs to potential business partners, and also source external APIs to offer value-added services and lifestyle solutions to customers.

Corporate and Commercial Banking

Performance improved for the Bank's corporate banking operations in 2018. Profit before tax rose by 17.8%, mainly contributed by a 15.0% increase in net fee and commission income and a 69.4% reduction in impairment losses. Net interest income dropped slightly due to a rise in funding costs.

Corporate Banking continued to emphasise asset quality over loan growth. Exposure to stressed sectors was closely monitored, and the portfolio was replenished by taking on more quality names in policy-favoured industries. Meanwhile, the Bank proactively managed the impact of the US-China trade dispute, and supported customers as they diversified their production base elsewhere in Asia. The corporate loan balance saw a mild net increase of 1.9%, while the impaired loan ratio continued to improve.

The Corporate Banking Division has been restructured with an aim to grow the customer base, raise CASA balances and diversify revenues. In particular, greater emphasis will be placed on acquiring local small and medium-sized enterprises. Five Business Centres have been set up to serve SMEs and another five will be added by the end of 2019. The Bank's cash management and corporate wealth management services are being expanded to attract low-cost deposits and grow fee income.

The Bank is also enhancing its digital services for corporate clients. The Corporate Cyberbanking platform is being revamped to improve usability, and thereby encourage online transactions and increase customer loyalty. Meanwhile, BEA jointly launched a digital trade finance platform, eTradeConnect, with six other banks in October 2018. This initiative adopts blockchain technology to streamline processes and eliminate paper-based transactions, thus improving operational efficiency and financial risk management.

Wealth Management

After a strong start in the first quarter, 2018 proved to be a challenging year for Private Banking.

Momentum slowed in the second quarter as the relationship between China and the US deteriorated. Markets then turned negative going into the second half. There was an unusually high correlation in performance across asset classes, and thus all investment instruments recorded a negative return. Investors turned defensive, deleveraging their portfolios due to reduced return expectations and higher borrowing costs.

Although Private Banking's net interest income rose year-on-year, this was offset by falls in revenue from investment activity and insurance sales. Overall, operating income declined by 6.2%. Assets under management were flat compared to the end of 2017.

BEA is enhancing the value proposition of its Private Bank to better serve its clients. Compensation and hiring strategies are under review to ensure that the Bank can maintain an experienced team of relationship managers. Private Banking is also strengthening its collaboration with other business units and Group subsidiaries, as well as external partners. The aim is to broaden the scope of referrals, particularly from the Greater Bay Area, which will be a key growth region in the coming decades.

Meanwhile, Private Banking continues to expand its product range, adding alternative investment options for clients during periods of market volatility and capital-protected products for those desiring lower risk.

Insurance and MPF Services

Following the adoption of HKFRS 9, changes in the valuation of certain financial assets are now included in net insurance revenue, making this line more susceptible to market fluctuations. Despite the reported drop in net insurance revenue, which was due to revaluation losses in 2018 and one-off gains on disposal of available-for-sale assets in 2017 due to the transition to HKFRS 9, the underlying performance of the Bank's insurance business during the review period remained sound.

BEA Life Limited, the Bank's wholly-owned life insurance subsidiary, achieved 11.7% growth in new premium income year-on-year, driving a 13.3% increase in the Bank's commission income from sales of BEA Life products.

The application process for life insurance products is being digitalised. In addition, the Bank launched its first endowment product for sale via digital distribution in November 2018. More products including critical illness and term life insurance will be added to this channel going forward.

Blue Cross (Asia-Pacific) Insurance Limited, BEA's wholly-owned general insurance subsidiary, achieved premium income growth of 8.7% year-on-year. Group medical was the main contributor, while online general insurance premiums also continued to rise. However, underwriting profit faced substantial pressure due to rising medical costs and the impact of Super Typhoon Mangkhut in September 2018, which brought a rise in claims for travel delays and property damage.

Blue Cross has a clear roadmap for its digital initiatives. An e-claims platform for travel insurance was deployed in June 2018. The Company now has an encouraging e-claims submission ratio of over 50%. A new Blue Cross mobile application will be launched in 2019, increasing the range of e-services available.

Total membership in BEA's Mandatory Provident Fund schemes grew to more than 787,000 at the end of 2018, while AUM stood at HK$24.3 billion. Higher average AUM and continued efforts to control costs led to a double-digit increase in profit. To maintain the Bank's market-leading position in the Industry Scheme, an online enrolment platform was launched in July 2018. The platform facilitates enrolment from casual employees in the construction and catering industries, and also speeds up the process of eliminating dummy accounts.

Business – China

Economic growth on the Mainland decelerated to 6.6% in 2018, compared with 6.8% in 2017. The deleveraging measures implemented in the first half of 2018 set the scene for the slowdown, while the US-China trade dispute became an increasingly negative factor in the second half of the year. Meanwhile, the Renminbi fell to multi-year lows against the US dollar. To stabilise and support the economy, the Mainland government reversed its tightening policies and loosened liquidity in the second half.

Despite macro difficulties, the net profit of BEA's China banking operations more than doubled to HK$674 million in 2018, up by 111.9% year-on-year. Net interest income rose to HK$4,099 million. Meanwhile, non-interest income increased significantly. NIM improved in the second half, reversing the decline in the first half and reaching 1.70% for the full year of 2018 – roughly the same level as the full year of 2017.

Total loans to corporates and individuals for BEA's China banking operations amounted to HK$149,689 million as at the end of 2018, a decrease of 1.41% from a year earlier. Deposits from customers decreased by 14.3% year-on-year to HK$170,914 million, with funding sources being further diversified.

Regarding asset quality, during the year, BEA's China banking operations remained cautious on extending credit and continued to actively manage the impaired loan portfolio. The impaired loan ratio stood at 1.73% at the end of 2018, down by 6 basis points year-on-year.

Operating expenses for BEA's China banking operations were HK$3,308 million, 12.0% higher than in 2017. The increase was largely due to investments in new retail transformation initiatives and expenses related to internet finance. Excluding these costs, operating expenses were about the same as in 2017. Meanwhile, the targeted three-year cost savings of HK$450 million initiated at the end of 2015 was successfully achieved by the end of 2018 as planned.

BEA China's retail banking transformation is now in full swing. The new retail initiatives delivered strong results in 2018, as evidenced by the five-fold increase in the consumer finance customer base and significant rise in retail lending compared with 2017. Given the good progress, BEA China will further expand its internet consumer finance and credit card businesses through existing partnerships in 2019, and explore the possibility of adding new partnerships. In addition, BEA China will continue to improve the customer experience for retail customers with new products and services in several targeted areas, including payments, deposits and wealth management.

Meanwhile, BEA China is strengthening its infrastructure in order to cater to the expanded business volume arising from the innovative retail banking initiatives and mitigate operational and other risks.

With respect to corporate banking, in 2018, BEA China put particular emphasis on de-risking its corporate portfolio. In particular, BEA China reduced its reliance on the real estate sector, lowered funding costs and revamped its line management structure. For 2019, BEA China will focus on enhancing its product and service capabilities in areas such as trade finance, transaction banking and investment banking. Additionally, BEA China will adopt a more integrated client coverage approach with Head Office in Hong Kong so as to pursue cross-border business more effectively, and develop opportunities with other financial institutions.

BEA China continues to consolidate and streamline its branch network. As at the end of 2018, BEA China operated 31 branches and 68 sub-branches in 44 cities on the Mainland. As mentioned above, in order to enhance operating efficiency and control risk, BEA China launched a functional line management structure in 2018. For the coming year, BEA China will carry out further enhancement work, including strengthening governance, optimising the MIS infrastructure and IT management and expanding use of fintech solutions.

Business – International, Macau and Taiwan

The Bank's overseas operations continued to perform well in 2018 and delivered another year of record profit despite market uncertainties stemming from the US-China trade dispute, lingering Brexit issues and the change of government in Malaysia.

During the year under review, BEA's overseas branches expanded their loan books prudently and proactively diversified their loan portfolios through participation in syndicated loans and club deals for large corporates in various industries.

BEA's overseas operations achieved high single-digit loan growth in 2018. Pre-provision operating profit rose by 6.6%. The cost-to-income ratio was stable at 32.7%, notwithstanding a surge in risk and compliance costs due to more stringent regulatory requirements. Asset quality remained good. The impaired loan ratio improved to 0.18% from 0.35% at the end of the prior year.

The US and United Kingdom operations were the main contributors to the Bank's overseas loan and income growth, followed by Singapore Branch.

In the US, the healthy domestic economy, low unemployment and lower taxes spurred business investment and development. The Bank's US operations participated in syndicated loans to investment-grade corporate borrowers and large corporates, and extended financing for real estate projects in gateway cities with strong sponsors. The unit also proactively developed bilateral lending opportunities with existing BEA customers with investments in the US.

In the UK, despite Brexit uncertainties, investment interest from Mainland China and other Asian countries remained strong, helping the Bank's UK operations register solid gains. The Bank's UK operations recorded strong loan growth with robust asset quality. The unit will continue efforts to diversify the loan book through participation in syndicated lending to large corporates.

This prudent diversification strategy was also adopted by Singapore Branch. Following a de-risking strategy and employing effective funding management, Singapore Branch achieved a mid-single digit increase in operating profit year-on-year.

In response to various headwinds in their domestic markets, Macau, Taiwan and Labuan branches adopted defensive measures. Macau Branch focused more on developing its retail business and initiated an upgrade of its digital banking platform. Taiwan Branch strengthened its origination capability in the syndicated loan market and arranged syndication deals to increase its fee income. Labuan Branch adopted a cautious stance in onboarding new customers and exiting accounts which were deemed to be of higher risk and financially weak.

Looking ahead, with continuing geopolitical uncertainties, the renewal of gaming licences in Macau and the upcoming elections in Taiwan in 2020, the operating environment is expected to remain challenging. Given this macro environment, the Bank seeks to optimise its loan portfolio to balance risk and return. It will continue to prioritise asset quality over loan growth and pursue loan diversification. Leveraging its local expertise in international markets, the Bank will further strive to facilitate business flows from customers in Greater China.

In addition, the Bank's overseas branches will streamline their operations. Cost control efforts will continue, although a sustained rise in risk and compliance costs is expected due to heightened regulatory requirements.

The Bank will remain vigilant to market changes and will adjust its strategies accordingly to promote sustainable growth.

Other Subsidiaries and Associates

BEA Union Investment Management Limited

AUM by BEA Union Investment were flat in 2018, largely due to the volatility of the Asian capital markets.

In response to growing demand from overseas retail investors for funds that capture investment opportunities in China, BEA Union Investment launched the China Gateway Fund at the beginning of the year.

Meanwhile, to strengthen its capability in China's capital market, BEA Union Investment expanded Mainland distribution channels for two flagship funds, namely the Asian Bond and Currency Fund and the Asia Pacific Multi Income Fund. Both were approved for distribution on the Mainland under the Mainland-Hong Kong Mutual Recognition of Funds scheme in early 2018.

In addition, BEA Union Investment is applying for a private fund management licence from the Asset Management Association of China for a wholly foreign-owned subsidiary in Qianhai, Shenzhen. The private fund management licence will allow the Company to launch onshore funds targeted at professional investors on the Mainland.

Outside of the region, the Company also extended its distribution into Switzerland under the Hong Kong and Switzerland MRF scheme.

East Asia Qianhai Securities Company Limited

East Asia Qianhai Securities, the Bank's 49%-owned joint venture, commenced business in all four areas under its licence in late 2017, namely investment banking, asset management, brokerage and proprietary trading. To date, it has established branches in Beijing, Shanghai, Shenzhen, Guangzhou, Hangzhou, Wuhan and Nanjing. The Company also obtained approval to trade via Shanghai / Shenzhen-Hong Kong Stock Connect, act as a co-lead underwriter for corporate bonds approved by The National Development and Reform Commission of the People's Republic of China and act as a sponsor for initial public offerings on the National Equities Exchange and Quotations System.

In 2018, East Asia Qianhai Securities has successfully collaborated with BEA China to launch three collective asset management products targeting retail investors, and has participated in numerous investment banking projects including the issuance of public and private bonds for corporates and provision of financial advisory services.

Our People

As of 31st December, 2018, the BEA Group employed 9,796 people:

Continuing Operations	As of 31st December, 2018	As of 31st December, 2017 (Restated)
Hong Kong	5,376	5,305
Mainland China	3,821	4,086
Macau and Taiwan	164	156
Overseas	435	431
Total	9,796	9,978

** With effect from 2018, the headcount figures are grouped with reference to the segment reporting prepared by the Bank according to the HKFRS 8 Operating Segments. As such, the 2017 figures have been restated for comparison purposes.*

In January 2018, the Bank rolled out a global programme to promote a common corporate culture rooted in the Bank's core values. Senior Management led a series of town hall meetings to promote the Bank's culture. Meanwhile, the Bank produced a corporate video highlighting the importance of a sound corporate culture, and launched a dedicated website on the Bank's intranet to promote key messages on the Bank's core values and encourage staff to participate by sharing their stories and experiences at work.

In order to reinforce positive behaviour, the Bank introduced a Staff Recognition Scheme to show appreciation to employees exemplifying the Bank's core values. In addition, feedback has been sought through a Senior Management Mailbox, Employee Survey and Customer Survey. The comments received are being used to further enhance the Bank's approach to inculcating a sound corporate culture.

As part of the Bank's ongoing programme to promote staff development, the Bank held strategic leadership training for senior executives, performance management training for people managers, risk management and compliance training and code of conduct training for all staff, induction training on core values, ethics, risk and compliance for new joiners, etc. The Bank also continues to develop and groom its employees for future leadership roles.

As a caring employer, the Bank enhanced staff benefits for annual leave, volunteer leave, maternity leave, paternity leave and medical protection in 2018. To help build staff relations and encourage a healthy work-life balance, the Bank continued to organise numerous social, sports and volunteering activities throughout the year.

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

The Risk Committee stands at the highest level of the Group's risk governance structure under the Board. It consists of four independent non-executive directors (including the Chairman of the Committee) and two non-executive directors. The Risk Committee provides direct oversight over the formulation of the Group's institutional risk appetite, and sets the levels of risk that the Group is willing to undertake with 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 Senior Management and relevant Division Heads adopt to execute their business functions. Through the Group's management committees at the executive level, including Crisis Management Committee, Risk Management Committee, Credit Committee, Asset and Liability Management Committee, and Operational Risk Management Committee – and with overall co-ordination by the Risk Management Division – the Risk Committee regularly reviews the Group's risk management framework and ensures that all important risk-related tasks are performed according to established policies with appropriate resources.

Enterprise Risk Management

The Group has implemented an Enterprise Risk Management framework. The ERM framework is promulgated with the objectives of identifying and managing potential risks in a holistic and effective manner, fulfilling the HKMA's higher expectations with regard to the risk management of the Group as a Domestic Systemically Important Bank, and reinforcing the "Three Lines of Defence" risk management model.

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

- The first line of defence comprises the Risk Owners, who are division / department 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 as to the effectiveness of the Group's risk management framework including risk governance arrangements.

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

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 appropriate, to allocate adequate capital to cover those risks. These policies are reviewed and enhanced on a regular basis to cater for market changes, statutory requirements, and best practice 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	- 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 re-pricing risk, basis risk, options risk, and yield curve risk components
Market	Risk arising from adverse movements in market factors such as interest rates, foreign exchange, equity prices, and commodity prices, which result in profits or losses for the Group	- 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)	- 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
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 Group systematically and effectively, such as setting out operational risk incidents reporting, risk assessments, key risk indicators, insurance policies, etc

Risk	Description	Management Measures
Reputation	Risk that the Group's reputation is damaged by one or more events that result in negative publicity about the business practices, conduct, or financial condition of the Group. Such negative publicity, whether true or not, may impair public confidence in the Group and may result in costly litigation or lead to a decline in the Group's customer base, business, and / or revenue	- Establishment of various policies, guidelines, manuals and codes to ensure compliance with applicable laws, rules and regulations, and to ensure that the Group maintains a high standard of corporate governance, which in turn helps to safeguard and enhance the Group's reputation - 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 Group - Establishment of procedures that facilitate communication in a timely manner with external stakeholders during unexpected incidents according to the Guidelines for Incident Response and Management - Establishment of 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 technological changes	- Establishment of comprehensive policies, guidelines, and manuals to set out the management framework and assessment tools - Adoption of active 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 faces
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	- 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

Risk	Description	Management Measures
Compliance	Risk of potential losses arising from legal or regulatory sanctions, fines and penalties, financial losses or damage to reputation that the Group may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its business activities	- 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 that 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 Group to manage its compliance risk effectively - Conduct independent regulatory compliance reviews on major functions of the Group 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	- Development of technology risk related policies and cyber security strategies as well as comprehensive security awareness programmes to strengthen cyber security at all levels - Adoption of adequate 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
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	- Establishment of comprehensive policies, guidelines and manuals - Conduct business impact analysis and development of business continuity plans by all individual functional units of the Group - Perform 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 arising from the launch of new products, the structural change of existing products, and the establishment of new business operations (i.e. through the establishment of a new subsidiary and / or merger and acquisition). The significant potential risks include Credit Risk, Market Risk, Operational Risk, Liquidity Risk, Interest Rate Risk, Legal Risk, Technology Risk, Compliance Risk, Strategic Risk, Reputation Risk and Business Continuity Risk	- Establishment of a robust risk governance structure, supported by comprehensive policies, manuals, control guidelines and procedures - A structured evaluation process, which ensures that before initiating a new product or business, the potential significant risks are duly assessed, vetted and documented. The process also facilitates oversight of new products and businesses by Senior Management

Principal Uncertainties

The key uncertainties facing the Group in 2019 and the mitigating measures instituted are set out below:

Uncertainty	Description	Mitigating Measures
Cyber threats	Cyber threats have become a key area of focus for regulators, as they evolve rapidly. Attackers are constantly looking for more sophisticated and efficient ways to jeopardise the banks' operations and cyber security.	- Develop cyber security strategy and effective control and response frameworks including comprehensive security awareness programmes to protect the Bank's assets and continuously strengthen cyber resilience. - Maintain access to different threat intelligence sources, both local and overseas, to monitor the latest threats prevailing worldwide and ensure adequate protections are in place to address the threats.
Economic conditions in the Group's major markets	The Group's major markets are Hong Kong and Mainland China. The US-China trade dispute resulted in higher tariffs being placed on a wide range of products across various industry sectors. The potential impacts are wide-ranging and potentially long lasting, since the dispute is not likely to be settled in the near future. Meanwhile, apart from the US-China trade dispute, tighter global financial conditions and the fallout from Brexit may also impact the Group's operations in Southeast Asia, the UK and the US. The pace of the US Federal Reserve's action to raise interest rates is still uncertain. The Federal Reserve Chairman has expressed the view that central bank's benchmark interest rate is near a neutral level. It implies that the Federal Reserve may raise interest rate less frequently than anticipated. Changes in the timing, magnitude and frequency of US rate hikes may increase uncertainties concerning the pace of global economic growth, reversion of asset prices, foreign exchange markets and liquidity.	- For the trade dispute, control measures have been taken including monthly survey, health check, and close monitoring of customers that may be affected. - A new parameter "US-China Trade Dispute" has been included as part of the hypothetical analysis under macroeconomic stress-testing to assess the overall impact from a credit risk perspective on the Group's profitability and Capital Adequacy Ratio. - Related impact analysis of the trade dispute has been considered in the credit underwriting and review process. - Business strategies have taken into consideration the changing economic conditions and the economic trends are closely monitored. - The suitability of risk management policies and controls are reviewed and updated on an ongoing basis.
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.	- The Group keeps abreast of legal and regulatory developments and will seek advice from external lawyers with appropriate expertise so as to comply with the legal and regulatory requirements. - 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.

Uncertainty	Description	Mitigating Measures
External fraud	External fraud has become more sophisticated and more difficult to prevent in a digital environment. Identity fraud is on the rise in the banking industry.	- 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. - A dedicated fraud risk management function led by experts has been set up and deployed to mitigate fraud risk.
Foreign exchange rate movement	One of the major concerns for the Group in 2019 is the strength of the value of the US dollar. The number and scale of interest rate adjustments by the US Federal Reserve may affect the trend and magnitude of the US dollar rally in 2019. However, any increase in economic uncertainty may drive the dollar higher as investors become more risk averse and switch to assets that are considered safe. Another major challenge for the Group is the potential for adverse movement in the RMB. The risk of such movement has increased along with slowing growth on the Mainland and the possibility that the US-China trade dispute will worsen. Meanwhile, if China is forced to increase imports from the US significantly, China's trade surplus will be reduced, sending foreign exchange reserves lower. This will put further depreciation pressure on the RMB. Unexpected fluctuations in foreign exchange rates could affect: - 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.	- 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 2018, BEA issued floating rate certificates of deposit and debt securities with a face value of US$1,200 million; fixed rate certificates of deposit and debt securities with a face value of HK$6,069 million, US$887 million, GBP25 million, EUR520 million, CHF30 million and JPY1,500 million; and zero coupon certificates of deposit and debt securities with a face value of HK$2,268 million, US$5,091 million, CNY25,570 million, GBP515 million, EUR436 million, and CHF75 million. The Group redeemed a quantity of certificates of deposit and debt securities amounting to HK$87,351 million equivalent upon maturity.

At the end of December 2018, the face value of the outstanding certificates of deposit and debt securities issued was equivalent to HK$59,472 million, with a carrying amount equivalent to HK$59,054 million.

Maturity Profile of Certificates of Deposit and Debt Securities Issued
As at 31st December, 2018
(All expressed in millions of dollars)

	Total Face Value	Year of Maturity	
		2019	2020
Floating Rate			
USD	1,220	1,200	20
Fixed Rate *(Note)*			
HKD	3,820	3,820	
USD	524	524	
GBP	25	25	
JPY	1,500	1,500	
CHF	30	30	
Zero Coupon			
HKD	1,190	1,190	
USD	2,319	2,319	
CNY	13,670	13,670	
GBP	470	470	
CHF	75	75	
EUR	134	134	
Total Certificates of Deposit and Debt Securities issued in HKD equivalent	59,472	59,315	157

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

At the end of December 2018, the face value of the outstanding loan capital issued was equivalent to HK$12,531 million, with a carrying amount equivalent to HK$12,358 million.

Maturity Profile of Loan Capital
As at 31st December, 2018
(All expressed in millions of dollars)

	Total Face Value	Year of Maturity		
		2020	2024	2026
USD (Notes 1 & 2)	1,600	600	500	500
Total Loan Capital issued in HKD equivalent	12,531	4,699	3,916	3,916

Notes:
1. The US$500 million loan capital that matures in 2024 will be callable on 20th November, 2019.
2 The US$500 million loan capital that matures in 2026 will be callable on 3rd November, 2021.

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).

The Compliance Division is responsible for overseeing the regulatory compliance framework and monitoring 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-financing of terrorism, 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 operational 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-financing of terrorism; the Foreign Account Tax Compliance Act of the US; legislation in Hong Kong for implementing the international standard on the automatic exchange of financial account information in tax matters; and cross-border business, personal data protection, insurance and investment products sales practices, etc. – BEA expects compliance requirements to remain high in the coming years.

By order of the Board

David LI Kwok-po
Chairman & Chief Executive

Hong Kong, 27th February, 2019

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. Stephen Charles LI Kwok-sze*, 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**, Mr. Meocre LI Kwok-wing**, Dr. the Hon. Henry TANG Ying-yen**, The Hon. CHAN Kin-por** and Dr. Delman LEE**.*

Executive Director
* *Non-executive Director*
** *Independent Non-executive Director*

GLOSSARY
詞彙

100th Anniversary 「100 周年」	The 100th Anniversary of the Bank 本行100 周年
2019 AGM 「2019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, 3rd May, 2019 at 11:30 a.m. or any adjournment thereof 本行將於2019年5月3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
API 「API」	Application Programming Interface 應用程式介面
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
Bank Culture Reform 「銀行企業文化改革」	The circular in respect of Bank Culture Reform, issued by the HKMA on 2nd March, 2017 金管局於2017年3月2日發出之銀行企業文化改革通告
Banking Ordinance 「《銀行業條例》」	The Banking Ordinance (Chapter 155 of the Laws of Hong Kong) 《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 Hong Kong 「東亞香港」	The Bank's operations in Hong Kong 本行的香港業務
BEA Life 「東亞人壽」	BEA Life Limited, a wholly-owned subsidiary of the Bank 東亞人壽保險有限公司，本行的全資附屬公司
BEA Union Investment 「東亞聯豐投資」	BEA Union Investment Management Limited, a non-wholly-owned subsidiary of the Bank 東亞聯豐投資管理有限公司，本行的非全資附屬公司
Blue Cross 「藍十字」	Blue Cross (Asia-Pacific) Insurance Limited, a wholly-owned subsidiary of the Bank 藍十字（亞太）保險有限公司，本行的全資附屬公司
Board 「董事會」	Board of Directors of the Bank 本行的董事會
Capital Rules 「《資本規則》」	Banking (Capital) Rules issued by the HKMA 金管局頒布的《銀行業（資本規則）》
CASA 「往來賬戶及儲蓄賬戶」	Current and savings account 往來賬戶及儲蓄賬戶
CG Code 「《企業管治守則》」	Corporate Governance Code and Corporate Governance Report, Appendix 14 of the Listing Rules 《上市規則》附錄14內所載的《企業管治守則》及《企業管治報告》

CG-1 「CG-1」	Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorized Institutions, issued by the HKMA 金管局頒布之監管政策手冊CG-1內有關《本地註冊認可機構的企業管冶》
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）
Credit Gain 「領達財務」	Credit Gain Finance Company Limited, a wholly-owned subsidiary of the Bank 領達財務有限公司，本行的全資附屬公司
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
East Asia Qianhai Securities 「東亞前海證券」	East Asia Qianhai Securities Company Limited 東亞前海證券有限責任公司
Guidance on Empowerment of INEDs 「提升獨立非執行董事的專業能力指引」	The guidance on Empowerment of Independent Non-Executive Directors (INEDs) in the Banking Industry in Hong Kong, issued by the HKMA 金管局頒布之提升香港銀行業獨立非執行董事的專業能力指引
ERM 「企業風險管理」	Enterprise risk management 企業風險管理
EUR 「歐元」或「歐羅」	Euro 歐元區法定貨幣
Federal Reserve 「聯儲局」	US Federal Reserve 美國聯邦儲備局
GBP 「英鎊」	Pound sterling, the lawful currency of the UK 英國法定貨幣
Greater Bay Area 「大灣區」	Guangdong-Hong Kong-Macao Greater Bay Area 「粵港澳大灣區」
HK$ or HKD 「港幣」	Hong Kong dollar, the lawful currency of Hong Kong 香港法定貨幣
HKAS 「香港會計準則」	Hong Kong Accounting Standards 香港會計準則
HKFRS 「香港財務報告準則」	Hong Kong Financial Reporting Standards 香港財務報告準則

HKICPA 「香港會計師公會」	Hong Kong Institute of Certified Public Accountants 香港會計師公會
HKMA 「金管局」	Hong Kong Monetary Authority 香港金融管理局
Hong Kong 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
HKFRS9 「財務報告第9號」	Hong Kong Financial Reporting Standard 9: Financial Instruments 香港財務報告準則第9號：監管匯報
JPY 「日圓」	Japanese yen, the lawful currency of Japan 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
Macau Branch 「澳門分行」	The Bank's branch operations in Macau 本行的澳門分行
Moody's 「穆迪」	Moody's Investor Service 穆迪信貸服務
MPF 「強積金」	Mandatory Provident Fund 強制性公積金
Mobile app 「手機應用程式」	Mobile application 手機應用程式
MRF scheme 「基金互認安排」	Mutual Recognition of Funds scheme 基金互認安排
MYR 「馬幣」	Malaysian Ringgit, the lawful currency of Malaysia 馬來西亞法定貨幣
NIM 「淨息差」	Net interest margin 淨息差
Senior Management 「高層管理人員」	The Chief Executive, Executive Directors and Deputy Chief Executives of the Bank 本行的行政總裁，執行董事及副行政總裁
SGD 「新加坡元」	Singapore dollar, the lawful currency of Singapore 新加坡法定貨幣
Share 「股」或「股份」	Ordinary shares of the Bank 本行普通股
SME(s) 「中小型企業」	Small and medium-sized enterprise(s) 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
Taiwan Branch 「台灣分行」	The Bank's branch operations in Taiwan 本行的台灣分行
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