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## The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

### ANNOUNCEMENT OF 2008 FINAL RESULTS

#### SUMMARY OF RESULTS

The Directors of The Bank of East Asia, Limited ("BEA") are pleased to announce the audited results<sup>a</sup> of the Bank and its subsidiaries (the "Group") for the year ended 31<sup>st</sup> December, 2008. 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 2007 annual accounts.

#### 1. Consolidated Profit and Loss Account

	2008	2007	Variance	
	HK\$ Mn	HK\$ Mn		%
Interest income	17,465	18,309	-	4.6
Interest expense	(10,672)	(12,332)	-	13.5
Net interest income	6,793	5,977	+	13.7
Fee and commission income	2,618	2,608	+	0.4
Fee and commission expense	(473)	(471)	+	0.3
Net fee and commission	2,145	2,137	+	0.4
Net trading (losses)/profits	(1,292)	1,417	-	191.2
Net result from financial instruments designated at fair value through profit or loss	(1,612)	(1,154)	+	39.6
Other operating income	423	437	-	3.4
Non-interest (expense)/income	(336)	2,837	-	111.9
Operating income	6,457	8,814	-	26.7
Operating expenses	(5,779)	(4,691)	+	23.2
Operating profit before impairment losses	678	4,123	-	83.6
Impairment losses on loans and advances	(558)	(216)	+	157.8
Impairment losses on held-to-maturity investments	(44)	(42)	+	6.3
Impairment losses on available-for-sale financial assets	(352)	(228)	+	54.5
Impairment losses on associates	-	(41)	-	100.0
Write back of impairment losses on bank premises	6	132	-	95.6
Impairment losses	(948)	(395)	+	140.2
Operating (loss)/profit after impairment losses	(270)	3,728	-	107.3
Net profit on sale of held-to-maturity investments	25	-	-	-
Net profit on sale of available-for-sale financial assets	197	667	-	70.4
Net profit on sale of loans and receivable	1	-	-	-
Net (loss)/profit on sale of subsidiaries/associates	(8)	406	-	102.0
Net profit/(loss) on sale of fixed assets	178	(1)	+	31,235.1
Valuation (losses)/gains on investment properties	(168)	293	-	157.3
Share of profits less losses on associates	53	92	-	42.2
Profit for the year before taxation	8	5,185	-	99.9
Income tax				
Current tax <sup>b</sup>				
- Hong Kong	(64)	(258)	-	75.1
- Overseas	(566)	(331)	+	70.7
Deferred tax	726	(375)	-	293.7
Profit for the year after taxation	104	4,221	-	97.5
Attributable to:				
Equity holders of the Group	39	4,144	-	99.1
Minority interests	65	77	-	16.4
Profit after taxation	104	4,221	-	97.5
Proposed final dividend per share	HK\$0.02	HK\$1.18	-	98.3
Bonus issue of shares	one for ten	N/A		
Per share				
- Basic earnings <sup>c</sup>	HK\$0.02	HK\$2.65	-	99.2
- Diluted earnings <sup>c</sup>	HK\$0.02	HK\$2.63	-	99.2
- Dividends	HK\$0.25	HK\$1.66	-	84.9

## 2. Consolidated Balance Sheet

	2008	2007	Variance	
	HK\$ Mn	HK\$ Mn		%
<b>ASSETS</b>				
Cash and balances with banks and other financial institutions	28,105	17,853	+	57.4
Placements with banks and other financial institutions	96,574	94,704	+	2.0
Trade bills	1,164	812	+	43.4
Trading assets	3,437	4,847	-	29.1
Financial assets designated at fair value through profit or loss	4,130	8,658	-	52.3
Advances to customers and other accounts	243,725	231,740	+	5.2
Available-for-sale financial assets	18,560	12,217	+	51.9
Held-to-maturity investments	5,006	10,761	-	53.5
Investments in associates	2,486	2,793	-	11.0
Fixed assets	9,146	6,856	+	33.4
- Investment properties	1,839	1,726	+	6.5
- Other property and equipment	7,307	5,130	+	42.4
Goodwill and intangible assets	2,734	2,668	+	2.5
Deferred tax assets	187	70	+	167.4
<b>Total Assets</b>	<b>415,254</b>	<b>393,979</b>	<b>+</b>	<b>5.4</b>
<b>EQUITY AND LIABILITIES</b>				
Deposits and balances of banks and other financial institutions	27,045	39,060	-	30.8
Deposits from customers	323,802	284,186	+	13.9
Trading liabilities	2,846	2,372	+	19.9
Certificates of deposit issued	5,491	12,165	-	54.9
- At fair value through profit or loss	3,777	7,660	-	50.7
- At amortised cost	1,714	4,505	-	62.0
Current taxation	333	229	+	45.6
Deferred tax liabilities	77	872	-	91.2
Other accounts and provisions	12,139	10,997	+	10.4
Loan capital	11,036	13,652	-	19.2
- At fair value through profit or loss	6,395	8,983	-	28.8
- At amortised cost	4,641	4,669	-	0.6
<b>Total Liabilities</b>	<b>382,769</b>	<b>363,533</b>	<b>+</b>	<b>5.3</b>
Share capital	4,183	3,936	+	6.3
Reserves	27,963	26,163	+	6.9
Total equity attributable to equity holders of the Group	32,146	30,099	+	6.8
Minority interests	339	347	-	2.5
<b>Total Equity</b>	<b>32,485</b>	<b>30,446</b>	<b>+</b>	<b>6.7</b>
<b>Total Equity and Liabilities</b>	<b>415,254</b>	<b>393,979</b>	<b>+</b>	<b>5.4</b>

### 3. Consolidated Summary Statement of Changes in Equity

	2008	2007
	HK\$ Mn	HK\$ Mn
Total equity as at 1 <sup>st</sup> January	30,446	27,644
Net (loss)/income recognised directly in equity		
(Recognition)/release of net deferred tax liabilities in		
- Revaluation reserve on bank premises	3	(6)
- Investment revaluation reserve on available-for-sale financial assets	98	16
Revaluation surplus on bank premises transferred to investment properties	10	36
Capital reserve on share-based transactions	66	28
Reversal upon disposal of available-for-sale financial assets	(115)	27
Changes in fair value of available-for-sale financial assets	(830)	(421)
Exchange and other adjustments	477	480
	<u>(291)</u>	<u>160</u>
Net profit for the year		
Attributable to:		
Equity holders of the Group	39	4,144
Minority interests	65	77
	<u>104</u>	<u>4,221</u>
Total recognised income and expenses for the year (of which HK\$65 million (2007: HK\$77 million) is attributable to minority interests)	<u>(187)</u>	<u>4,381</u>
Dividends declared or approved during the year	<u>(2,340)</u>	<u>(2,352)</u>
Movements in shareholders' equity arising from capital transactions with equity holders of the Group:		
Shares issued under Staff Share Option Schemes	100	155
Shares issued in lieu of dividends	597	730
Subscription for new shares	3,942	-
	<u>4,639</u>	<u>885</u>
Movements in minority interests		
Sale of interests in businesses to minority interests investors	-	50
Purchase of interests in businesses from minority interests investors	(64)	(15)
Final dividend in respect of previous year	(7)	-
Reversal upon disposal of available-for-sale financial assets	-	(149)
Exchange and other adjustments	(2)	2
	<u>(73)</u>	<u>(112)</u>
Balance as at 31 <sup>st</sup> December	<u><u>32,485</u></u>	<u><u>30,446</u></u>

#### 4. Consolidated Cash Flow Statement

	2008 HK\$ Mn	2007 HK\$ Mn
<b>OPERATING ACTIVITIES</b>		
Profit for the year before taxation	8	5,185
Adjustments for:		
Charge for impairment losses on loans and advances	558	216
Charge for impairment allowances on held-to-maturity investments, available-for-sale financial assets and associates	396	311
Share of profits less losses of associates	(53)	(92)
Net profit on sale of held-to-maturity investments	(25)	-
Net profit on sale of available-for-sale financial assets	(197)	(667)
Net loss/(profit) on sale of subsidiaries, associates and equities	8	(406)
Net (profit)/loss on sale of fixed assets	(178)	1
Interest expense on loan capital, certificates of deposit and bonds issued	1,014	1,115
Depreciation on fixed assets	437	326
Write back of impairment loss on bank premises	(6)	(132)
Dividend income from available-for-sale financial assets	(50)	(63)
Amortisation of intangible assets	3	2
Amortisation of premium/discount on certificates of deposit and loan capital issued	78	65
Revaluation (gains)/losses on certificates of deposit and loan capital issued	(2,624)	84
Net (profit)/loss on sale of other financial assets	(3)	2
Valuation losses/(gains) on investment properties	168	(293)
Transfer to capital reserve of staff share options	66	28
<b>OPERATING (LOSS)/PROFIT BEFORE CHANGES IN WORKING CAPITAL</b>	<b>(400)</b>	<b>5,682</b>
(Increase)/decrease in operating assets:		
Cash and balances with banks with original maturity beyond three months	(4,397)	(3,117)
Placements with banks and other financial institutions with original maturity beyond three months	(18,823)	(4,256)
Trade bills	(352)	(191)
Trading assets	1,410	(2,008)
Financial assets designated at fair value through profit or loss	4,528	(14)
Advances to customers	(12,366)	(52,158)
Advances to banks and other financial institutions	1,158	(3,220)
Held-to-maturity debt securities	5,863	(279)
Available-for-sale securities	(6,000)	(4,794)
Other accounts and accrued interest	(1,323)	(799)
Increase/(decrease) in operating liabilities:		
Deposits and balances of banks and other financial institutions	(12,015)	7,101
Deposits from customers	39,616	74,662
Trading liabilities	474	1,430
Other accounts and provisions	1,273	2,712
Exchange adjustments	362	376
<b>NET CASH (OUTFLOW)/INFLOW FROM OPERATIONS</b>	<b>(992)</b>	<b>21,127</b>
Income tax paid		
Hong Kong profits tax paid	(143)	(394)
Overseas profits tax paid	(383)	(306)
<b>NET CASH FLOWS (USED IN)/GENERATED FROM OPERATING ACTIVITIES</b>	<b>(1,518)</b>	<b>20,427</b>

	2008	2007
	HK\$ Mn	HK\$ Mn
<b>INVESTING ACTIVITIES</b>		
Dividends received from associates	163	103
Dividends received from equity securities	50	63
Purchase of equity securities	(444)	(832)
Proceeds from sale of equity securities	512	1,455
Purchase of intangible assets	(6)	-
Purchase of fixed assets	(2,557)	(924)
Purchase of investment properties	(291)	-
Proceeds from disposal of fixed assets	213	13
Increase in shareholding in associates	(18)	(1,735)
Proceeds from disposal of associates	51	1
Purchase of subsidiaries	(21)	(38)
Proceeds from sale of interests in a subsidiary	-	455
Purchase of interests in business from minority interest investors	(64)	(15)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(2,412)</b>	<b>(1,454)</b>
<b>FINANCING ACTIVITIES</b>		
Ordinary dividends paid	(1,750)	(1,622)
Issue of ordinary share capital	100	155
Issue of loan capital	-	9,255
Subscription for new shares	3,942	-
Issue of certificates of deposit	4,656	9,655
Redemption of certificates of deposit issued	(11,434)	(4,620)
Redemption of loan capital	-	(3,907)
Interest paid on loan capital	(708)	(656)
Interest paid on certificates of deposit issued	(488)	(224)
<b>NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES</b>	<b>(5,682)</b>	<b>8,036</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(9,612)</b>	<b>27,009</b>
<b>CASH AND CASH EQUIVALENTS AT 1<sup>ST</sup> JANUARY</b>	<b>103,718</b>	<b>76,709</b>
<b>CASH AND CASH EQUIVALENTS AT 31<sup>ST</sup> DECEMBER</b>	<b>94,106</b>	<b>103,718</b>
<b>Cash flows from operating activities included:</b>		
Interest received	17,514	17,570
Interest paid	10,305	11,601
Dividend received	93	101

Notes:

- (a) The financial information set out in this report does not constitute the Group's statutory accounts for the year ended 31<sup>st</sup> December, 2008 but there is no material change as compared to those accounts. The statutory accounts for the year ended 31<sup>st</sup> December, 2008 will be available from the website of The Stock Exchange of Hong Kong Limited.
- (b) In February 2008, the Government of the Hong Kong Special Administrative Region announced a decrease in the Profits Tax rate from 17.5% to 16.5% applicable to the Group's operations in Hong Kong as from the year ended 31<sup>st</sup> December, 2008. This decrease is taken into account in the preparation of the Group's and the Bank's 2008 accounts. Accordingly, the provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year and the opening balance of deferred tax has been re-estimated accordingly.

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

- (c) (i) The calculation of basic earnings per share is based on earnings of HK\$39 million (2007: HK\$4,144 million) and on the weighted average of 1,666,446,266 (2007: 1,565,141,199) ordinary shares outstanding during the year.
- (ii) The calculation of diluted earnings per share is based on earnings of HK\$39 million (2007: HK\$4,144 million) and on 1,669,663,642 (2007: 1,574,625,151) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

## 5. Interest Income

	2008	2007	Variance	
	HK\$ Mn	HK\$ Mn		%
Listed securities classified as held-to-maturity or available-for-sale	261	154	+	69.3
Trading assets				
- listed	2	4	-	50.1
- unlisted	8	35	-	78.3
Interest rate swaps	917	770	+	19.2
Financial assets designated at fair value through profit or loss				
- listed	128	152	-	16.0
- unlisted	310	426	-	27.2
Loans, deposits with banks and financial institutions, trade bills, and other unlisted securities that are not at fair value through profit or loss	15,839	16,768	-	5.5
Total interest income	<u>17,465</u>	<u>18,309</u>	-	4.6

Included above is interest income accrued on impaired financial assets of HK\$73 million (2007: HK\$29 million) for the year ended 31<sup>st</sup> December, 2008.

## 6. Interest Expense

	2008	2007	Variance	
	HK\$ Mn	HK\$ Mn		%
Customer deposits, deposits of banks and other financial institutions and certificates of deposit issued which are stated at amortised cost	8,696	10,433	-	16.6
Subordinated notes carried at amortised cost	184	265	-	30.6
Interest rate swaps	1,062	918	+	15.7
Financial instruments designated at fair value through profit or loss	725	712	+	1.7
Other borrowings	5	4	+	15.9
Total interest expense	<u>10,672</u>	<u>12,332</u>	-	13.5

## 7. Fee and Commission Income

Fee and commission income arises from the following services:

	2008	2007	Variance	
	HK\$ Mn	HK\$ Mn		%
Corporate services	818	753	+	8.7
Credit cards	462	400	+	15.5
Loans, overdrafts and guarantees	382	386	-	1.3
Securities and brokerage	255	443	-	42.5
Other retail banking services	187	191	-	1.9
Trade finance	160	113	+	41.4
Trust and other fiduciary activities	102	84	+	22.2
Others	252	238	+	6.0
Total fee and commission income	<u>2,618</u>	<u>2,608</u>	+	0.4

## 8. Net Trading (Losses)/Profits

	2008	2007	Variance
	HK\$ Mn	HK\$ Mn	%
Profit on dealing in foreign currencies	316	173	+ 81.7
(Loss)/profit on trading securities	(618)	852	- 172.6
(Loss)/profit on other dealing activities	(1,033)	354	- 392.3
Dividend income from listed trading securities	43	38	+ 14.2
Total net trading (losses)/profits	<u>(1,292)</u>	<u>1,417</u>	- 191.2

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

	2008	2007	Variance
	HK\$ Mn	HK\$ Mn	%
Revaluation and disposal loss on Collateralised Debt Obligations	(3,549)	(1,085)	+ 226.9
Revaluation gain/(loss) on debt issued	2,624	(84)	+ 3,227.0
Net profit/(loss) on sale of other financial assets designated at fair value through profit or loss	3	(2)	+ 225.5
Revaluation (loss)/gain on other financial assets designated at fair value through profit or loss	(690)	17	- 4,120.2
Total net result from financial instruments designated at fair value through profit or loss	<u>(1,612)</u>	<u>(1,154)</u>	+ 39.6

## 10. Other Operating Income

	2008	2007	Variance
	HK\$ Mn	HK\$ Mn	%
Dividend income from available-for-sale financial assets			
- listed	20	42	- 53.0
- unlisted	30	21	+ 41.0
Rental from safe deposit boxes	87	88	- 1.1
Net revenue from insurance activities	99	139	- 28.5
Rental income on properties	90	72	+ 23.7
Others	97	75	+ 29.4
Total other operating income	<u>423</u>	<u>437</u>	- 3.4



## 11. Operating Expenses

	2008	2007	Variance	
	HK\$ Mn	HK\$ Mn		%
Contributions to defined contribution plan	225	164	+	37.0
Equity-settled share-based payment expenses	66	28	+	142.4
Salaries and other staff costs	2,689	2,276	+	18.1
Total staff costs	<u>2,980</u>	<u>2,468</u>	+	20.7
Premises and equipment expenses excluding depreciation				
- Rental of premises	378	288	+	31.3
- Maintenance, repairs and others	445	343	+	29.8
Total premises and equipment expenses excluding depreciation	<u>823</u>	<u>631</u>	+	30.5
Depreciation on fixed assets	<u>437</u>	<u>326</u>	+	33.9
Amortisation of intangible assets	<u>3</u>	<u>2</u>	+	15.2
Other operating expenses				
- Stamp duty, overseas and PRC* business taxes, and value added taxes	373	217	+	71.9
- Advertising expenses	287	270	+	6.5
- Communications, stationery and printing	274	233	+	17.4
- Legal and professional fees	193	165	+	17.1
- Business promotions and business travel	97	82	+	18.2
- Card related expenses	72	60	+	19.8
- Insurance expenses	43	33	+	28.0
- Donations	9	8	+	6.9
- Audit fee	8	7	+	31.2
- Administration expenses of corporate services	7	21	-	66.3
- Membership fees	7	6	+	23.6
- Bank charges	7	5	+	43.0
- Bank licence	4	5	-	10.3
- Others	155	152	+	1.9
Total other operating expenses	<u>1,536</u>	<u>1,264</u>	+	21.6
Total operating expenses	<u>5,779</u>	<u>4,691</u>	+	23.2

\* PRC denotes the People's Republic of China.

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

	2008	2007	Variance	
	HK\$ Mn	HK\$ Mn		%
Net revaluation gain/(loss) transferred from reserves	115	(27)	+	525.9
Profit arising in current year	82	694	-	88.2
	<u>197</u>	<u>667</u>	-	70.4

### 13. Trading Assets

	2008	2007	Variance	
	HK\$ Mn	HK\$ Mn		%
Treasury bills (including Exchange Fund Bills)	400	1,195	-	66.5
Debt securities	126	18	+	613.2
Equity securities	989	1,808	-	45.3
Investment funds	188	274	-	31.5
Trading securities	1,703	3,295	-	48.3
Positive fair values of derivatives	1,734	1,552	+	11.7
	<u>3,437</u>	<u>4,847</u>	-	29.1
Issued by:				
Central government and central banks	400	1,195	-	66.5
Public sector entities	13	19	-	29.0
Banks and other financial institutions	443	546	-	19.0
Corporate entities	840	1,524	-	44.9
Other entities	7	11	-	44.0
	<u>1,703</u>	<u>3,295</u>	-	48.3
Analysed by place of listing:				
Listed in Hong Kong	825	1,627	-	49.3
Listed outside Hong Kong	294	211	+	38.9
	1,119	1,838	-	39.1
Unlisted	584	1,457	-	59.9
	<u>1,703</u>	<u>3,295</u>	-	48.3

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

	2008	2007	Variance	
	HK\$ Mn	HK\$ Mn		%
Certificates of deposit held	-	50	-	100.0
Debt securities	4,130	8,608	-	52.0
	<u>4,130</u>	<u>8,658</u>	-	52.3
Issued by:				
Public sector entities	142	184	-	22.9
Banks and other financial institutions	1,642	1,096	+	49.8
Corporate entities	2,346	7,378	-	68.2
	<u>4,130</u>	<u>8,658</u>	-	52.3
Analysed by place of listing:				
Listed in Hong Kong	1,325	1,755	-	24.5
Listed outside Hong Kong	1,178	796	+	47.9
	2,503	2,551	-	1.9
Unlisted	1,627	6,107	-	73.4
	<u>4,130</u>	<u>8,658</u>	-	52.3

## 15. Advances to Customers and Other Accounts

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

	2008	2007	Variance	
	HK\$ Mn	HK\$ Mn		%
(i) Advances to customers	230,339	218,184	+	5.6
Less: Impairment allowances				
- Individual	(523)	(264)	+	98.2
- Collective	(521)	(433)	+	20.4
	<u>229,295</u>	<u>217,487</u>	+	5.4
(ii) Other accounts				
Advances to banks and other financial institutions	850	2,008	-	57.7
Notes and bonds	129	262	-	50.7
Certificates of deposit held	39	39	-	0.6
Accrued interest	1,863	1,912	-	2.6
Bankers acceptances	2,989	1,426	+	109.7
Other accounts	8,592	8,637	-	0.5
	<u>14,462</u>	<u>14,284</u>	+	1.2
Less: Impairment allowances				
- Individual	(23)	(25)	-	6.1
- Collective	(9)	(6)	+	36.7
	<u>14,430</u>	<u>14,253</u>	+	1.2
	<u><u>243,725</u></u>	<u><u>231,740</u></u>	+	5.2

(b) Advances to customers – by industry sectors

The analysis of gross advances to customers and the percentage of secured advances by industry sector are based on the categories and definitions used by the Hong Kong Monetary Authority.

	2008		2007		Variance	
	Gross advances	% of secured advances	Gross advances	% of secured advances		
	HK\$ Mn	%	HK\$ Mn	%		
Loans for use in Hong Kong						
Industrial, commercial and financial						
- Property development	8,855	61.25	9,080	66.41	-	2.5
- Property investment	27,431	86.88	26,023	87.04	+	5.4
- Financial concerns	2,542	69.94	1,932	76.71	+	31.6
- Stockbrokers	550	99.75	659	99.60	-	16.5
- Wholesale and retail trade	2,405	64.60	1,469	50.12	+	63.7
- Manufacturing	2,055	52.54	1,934	48.35	+	6.2
- Transport and transport equipment	3,642	74.80	4,345	70.36	-	16.2
- Recreational activities	285	91.11	285	90.81	-	0.2
- Information technology	4	49.13	5	38.89	-	5.5
- Others	9,954	71.52	9,673	72.40	+	2.9
- Sub-total	<u>57,723</u>	76.78	<u>55,405</u>	77.27	+	4.2
Individuals						
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,318	100.00	1,041	100.00	+	26.7
- Loans for the purchase of other residential properties	24,297	99.74	36,245	99.68	-	33.0
- Credit card advances	2,997	0.00	2,619	0.00	+	14.4
- Others	6,553	74.35	5,450	70.57	+	20.3
- Sub-total	<u>35,165</u>	86.52	<u>45,355</u>	90.43	-	22.5
Total loans for use in Hong Kong	92,888	80.47	100,760	83.20	-	7.8
Trade finance	2,905	59.03	3,714	57.09	-	21.8
Loans for use outside Hong Kong *	134,546	76.56	113,710	72.67	+	18.3
Total advances to customers	<u>230,339</u>	77.91	<u>218,184</u>	77.27	+	5.6

\* Loans for use outside Hong Kong includes the following loans for use in the PRC.

	2008		2007		Variance	
	Gross advances	% of secured advances	Gross advances	% of secured advances		
	HK\$ Mn	%	HK\$ Mn	%		
Property development	14,351	78.64	11,399	72.07	+	25.9
Property investment	24,215	87.95	22,049	92.58	+	9.8
Wholesale and retail trade	19,021	88.93	11,276	84.46	+	68.7
Manufacturing	9,547	63.58	7,418	47.35	+	28.7
Others	31,906	69.99	27,173	59.45	+	17.4
	<u>99,040</u>	78.66	<u>79,315</u>	72.90	+	24.9

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:

	2008	2007	Variance	
	HK\$ Mn	HK\$ Mn		%
(i) Property development				
a. Individually impaired loans	207	305	-	32.1
b. Individual impairment allowance	8	90	-	90.7
c. Collective impairment allowance	36	35	+	4.4
d. Provision charged to profit and loss				
- individual impairment loss	2	-	+	4,668.1
- collective impairment loss	12	12	-	4.4
e. Written off	84	-		-
(ii) Property investment				
a. Individually impaired loans	145	23	+	526.8
b. Individual impairment allowance	29	-	+	16,722.0
c. Collective impairment allowance	96	89	+	7.4
d. Provision charged to profit and loss				
- individual impairment loss	29	-	+	7,832.0
- collective impairment loss	24	27	-	11.3
e. Written off	-	-	-	84.0
(iii) Loans for purchase of residential properties				
a. Individually impaired loans	117	189	-	37.9
b. Individual impairment allowance	2	6	-	64.0
c. Collective impairment allowance	30	25	+	20.5
d. Provision charged to profit and loss				
- individual impairment loss	5	7	-	29.6
- collective impairment loss	6	3	+	116.3
e. Written off	3	6	-	48.2
(iv) Wholesale and retail trade				
a. Individually impaired loans	222	112	+	98.3
b. Individual impairment allowance	129	24	+	429.5
c. Collective impairment allowance	48	27	+	75.5
d. Provision charged to profit and loss				
- individual impairment loss	133	39	+	240.2
- collective impairment loss	21	11	+	90.0
e. Written off	4	8	-	46.5

(c) Advances to customers – by geographical areas

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

	2008				
	Total advances to customers	Advances overdue for three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	112,038	207	642	267	278
People's Republic of China	85,741	242	454	78	115
Other Asian Countries	10,798	159	246	168	103
Others	21,762	25	244	10	25
<b>Total</b>	<b>230,339</b>	<b>633</b>	<b>1,586</b>	<b>523</b>	<b>521</b>

% of total advances to customers

0.69%

Market value of security held against impaired advances to customers

3,769

	2007				
	Total advances to customers	Advances overdue for three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	123,539	296	622	148	265
People's Republic of China	62,518	114	334	87	84
Other Asian Countries	10,340	57	90	28	60
Others	21,787	1	196	1	24
<b>Total</b>	<b>218,184</b>	<b>468</b>	<b>1,242</b>	<b>264</b>	<b>433</b>

% of total advances to customers

0.57%

Market value of security held against impaired advances to customers

3,647

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.

There were no impaired advances to banks and other financial institutions as at 31<sup>st</sup> December, 2008 and 31<sup>st</sup> December, 2007; nor were there any individual impairment allowances made for them on these two dates.

## 16. Available-for-Sale Financial Assets

	2008 HK\$ Mn	2007 HK\$ Mn	Variance %
Treasury bills (including Exchange Fund Bills)	10,391	2,869	+ 262.2
Certificates of deposit held	762	807	- 5.5
Debt securities	6,398	6,797	- 5.9
Equity securities	899	1,602	- 43.9
Investment funds	110	142	- 22.6
	<u>18,560</u>	<u>12,217</u>	+ 51.9
Issued by:			
Central governments and central banks	10,419	2,914	+ 257.5
Public sector entities	231	2,337	- 90.1
Banks and other financial institutions	5,773	4,076	+ 41.6
Corporate entities	2,027	2,586	- 21.6
Other entities	110	304	- 63.7
	<u>18,560</u>	<u>12,217</u>	+ 51.9
Analysed by place of listing:			
Listed in Hong Kong	397	1,025	- 61.3
Listed outside Hong Kong	9,329	2,548	+ 266.0
	<u>9,726</u>	<u>3,573</u>	+ 172.2
Unlisted	8,834	8,644	+ 2.2
	<u>18,560</u>	<u>12,217</u>	+ 51.9

## 17. Held-to-Maturity Investments

	2008 HK\$ Mn	2007 HK\$ Mn	Variance %
Treasury bills (including Exchange Fund Bills)	180	67	+ 169.6
Certificates of deposit held	1,717	1,625	+ 5.7
Debt securities	3,216	9,111	- 64.7
	<u>5,113</u>	<u>10,803</u>	- 52.7
Less: Impairment allowances	(107)	(42)	+ 154.1
	<u>5,006</u>	<u>10,761</u>	- 53.5
Issued by:			
Central governments and central banks	243	5,411	- 95.5
Public sector entities	318	664	- 52.1
Banks and other financial institutions	3,344	3,507	- 4.7
Corporate entities	1,101	1,179	- 6.6
	<u>5,006</u>	<u>10,761</u>	- 53.5
Analysed by place of listing:			
Listed in Hong Kong	287	194	+ 48.3
Listed outside Hong Kong	1,863	2,129	- 12.5
	<u>2,150</u>	<u>2,323</u>	- 7.5
Unlisted	2,856	8,438	- 66.2
	<u>5,006</u>	<u>10,761</u>	- 53.5
Market value:			
Listed securities	2,028	2,330	- 13.0
Unlisted securities	2,870	8,463	- 66.1
	<u>4,898</u>	<u>10,793</u>	- 54.6

## 18. Segment Reporting

Segment information is presented in respect of the Group's business or geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Personal financial services include branch operations, personal Internet banking, consumer finance, property loans, credit card business and private banking to personal customers.

Corporate banking business includes corporate lending and loan syndication, asset based lending, commercial lending, enterprise lending, securities lending, trust services, mandatory provident fund business and corporate Internet banking.

Investment banking business includes treasury operations, securities broking and dealing, and provision of internet security trading services.

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

Other businesses include bancassurance, insurance business and property-related business.

Unallocated items mainly comprise the central management unit, bank premises, and any items which cannot be reasonably allocated to specific business segments.



## 2008

	Personal Financial Services HK\$ Mn	Corporate Banking HK\$ Mn	Investment Banking HK\$ Mn	Corporate Services HK\$ Mn	Others HK\$ Mn	Unallocated HK\$ Mn	Inter- segment elimination HK\$ Mn	Consolidated HK\$ Mn
<b>The Group</b>								
Net interest income/(expense)	1,686	5,046	(122)	2	181	-	-	6,793
Other operating income/ (expense) from external customers	808	(156)	(2,009)	815	146	60	-	(336)
Inter-segment income	-	-	-	-	-	213	(213)	-
Operating income	2,494	4,890	(2,131)	817	327	273	(213)	6,457
Operating expenses	(2,238)	(2,136)	(431)	(502)	(276)	(196)	-	(5,779)
Inter-segment expenses	(165)	(24)	(12)	-	(2)	(10)	213	-
Operating profit before impairment losses	91	2,730	(2,574)	315	49	67	-	678
(Charge for)/write back of impairment losses on loans and advances	(128)	(422)	-	(10)	2	-	-	(558)
Write back of impairment losses on bank premises	-	-	-	-	-	6	-	6
Impairment losses on available-for-sale financial assets, held-to-maturity investments and associates	-	-	(263)	-	(133)	-	-	(396)
Operating loss after impairment losses	(37)	2,308	(2,837)	305	(82)	73	-	(270)
Profit/(loss) on sale of fixed assets, available-for-sale financial assets, held-to- maturity investments and subsidiaries/associates	1	(8)	230	-	(9)	179	-	393
Valuation losses on investment properties	-	-	-	-	(168)	-	-	(168)
Share of profits less losses of associates	(5)	167	17	-	(127)	1	-	53
Profit before taxation	(41)	2,467	(2,590)	305	(386)	253	-	8
Depreciation for the year	(169)	(116)	(37)	(17)	(10)	(88)	-	(437)
Segment assets	54,254	178,015	155,371	3,400	5,506	-	-	396,546
Investments in associates	42	2,126	113	-	204	1	-	2,486
Unallocated assets	-	-	-	-	-	16,222	-	16,222
Total assets	54,296	180,141	155,484	3,400	5,710	16,223	-	415,254
Segment liabilities	173,515	153,810	36,146	119	3,254	-	-	366,844
Unallocated liabilities	-	-	-	-	-	4,889	-	4,889
Loan capital	-	-	-	-	-	11,036	-	11,036
Total liabilities	173,515	153,810	36,146	119	3,254	15,925	-	382,769
Capital expenditure incurred during the year	105	366	397	72	8	1,667	-	2,615

## 2007

	Personal Financial Services HK\$ Mn	Corporate Banking HK\$ Mn	Investment Banking HK\$ Mn	Corporate Services HK\$ Mn	Others HK\$ Mn	Unallocated HK\$ Mn	Inter- segment elimination HK\$ Mn	Consolidated HK\$ Mn
<b>The Group</b>								
Net interest income/(expense)	1,996	2,970	980	1	31	(1)	-	5,977
Other operating income from external customers	1,056	446	308	759	239	29	-	2,837
Inter-segment income	-	-	-	-	-	158	(158)	-
Operating income	3,052	3,416	1,288	760	270	186	(158)	8,814
Operating expenses	(1,898)	(1,327)	(570)	(441)	(222)	(233)	-	(4,691)
Inter-segment expenses	(126)	(17)	(7)	-	(2)	(6)	158	-
Operating profit before impairment losses	1,028	2,072	711	319	46	(53)	-	4,123
(Charge for/write back of Impairment losses on loans and advances	(43)	(172)	-	(5)	4	-	-	(216)
Write back of impairment losses on bank premises	-	-	-	-	-	132	-	132
Write back of impairment losses on available-for-sale financial assets, held-to- maturity investments and associates	-	-	(311)	-	-	-	-	(311)
Operating profit after impairment losses	985	1,900	400	314	50	79	-	3,728
Profit/(loss) on sale of fixed assets, available-for-sale financial assets, held-to- maturity investments and subsidiaries/associates	-	-	1,073	-	-	(1)	-	1,072
Valuation gains on investment properties	-	-	-	-	293	-	-	293
Share of profits less losses of associates	3	34	52	-	3	-	-	92
Profit before taxation	988	1,934	1,525	314	346	78	-	5,185
Depreciation for the year	(128)	(74)	(26)	(14)	(8)	(76)	-	(326)
Segment assets	56,901	159,796	151,171	1,106	8,218	1,014	-	378,206
Investments in associates	55	2,261	133	-	343	1	-	2,793
Unallocated assets	-	-	-	-	-	12,980	-	12,980
Total assets	56,956	162,057	151,304	1,106	8,561	13,995	-	393,979
Segment liabilities	171,181	114,690	55,647	126	2,677	-	-	344,321
Unallocated liabilities	-	-	-	-	-	5,560	-	5,560
Loan capital	-	-	-	-	-	13,652	-	13,652
Total liabilities	171,181	114,690	55,647	126	2,677	19,212	-	363,533
Capital expenditure incurred during the year	48	400	226	56	17	445	-	1,192

## 19. Off-balance Sheet Exposures

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

	2008 HK\$ Mn	2007 HK\$ Mn	Variance %
Contractual amounts of contingent liabilities and commitments			
- Direct credit substitutes	7,272	8,496	- 14.4
- Transaction-related contingencies	1,771	976	+ 81.5
- Trade-related contingencies	1,045	1,493	- 30.0
- Commitments that are unconditionally cancellable without prior notice	41,692	49,117	- 15.1
- Other commitments with an original maturity			
- up to 1 year	5,651	4,510	+ 25.3
- over 1 year	18,737	14,144	+ 32.5
Total	<u>76,168</u>	<u>78,736</u>	- 3.3
- Aggregate credit risk weighted amount	<u>20,642</u>	<u>18,725</u>	+ 10.2
Notional amounts of derivatives			
- Exchange rate contracts	40,652	45,679	- 11.0
- Interest rate contracts	44,724	28,340	+ 57.8
- Equity contracts	3,186	13,772	- 76.9
Total	<u>88,562</u>	<u>87,791</u>	+ 0.9
- Aggregate credit risk weighted amount	<u>819</u>	<u>401</u>	+ 104.2
- Aggregate replacement costs	<u>1,734</u>	<u>1,552</u>	+ 11.7

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

## 20. Currency Concentrations

The net positions or net structural positions in foreign currencies are disclosed when each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

	2008			Total
	USD	CNY	Others	
Spot assets	83,532	109,311	44,459	237,302
Spot liabilities	(75,673)	(103,348)	(45,670)	(224,691)
Forward purchases	51,244	18,872	11,843	81,959
Forward sales	(55,976)	(18,781)	(8,713)	(83,470)
Net options position	3	-	(4)	(1)
Net long position	<u>3,130</u>	<u>6,054</u>	<u>1,915</u>	<u>11,099</u>

	2007			Total
	HK\$ Mn			
	USD	CNY	Others	
Spot assets	94,859	75,601	44,405	214,865
Spot liabilities	(82,587)	(70,383)	(47,120)	(200,090)
Forward purchases	36,089	3,399	15,231	54,719
Forward sales	(45,224)	(4,418)	(11,369)	(61,011)
Net options position	(10)	-	22	12
Net long position	<u>3,127</u>	<u>4,199</u>	<u>1,169</u>	<u>8,495</u>

	2008			Total
	HK\$ Mn			
	USD	CNY	Others	
Net structural position	<u>2,179</u>	<u>6,602</u>	<u>940</u>	<u>9,721</u>

	2007			Total
	HK\$ Mn			
	USD	CNY	Others	
Net structural position	<u>1,792</u>	<u>4,771</u>	<u>891</u>	<u>7,454</u>

## 21. Reserves

	2008	2007	Variance	
	HK\$ Mn	HK\$ Mn		%
Share premium	4,922	1,118	+	340.2
General reserve	14,634	14,004	+	4.5
Revaluation reserve on bank premises	863	866	-	0.3
Investment revaluation reserve	(228)	475	-	147.7
Exchange revaluation reserve	1,006	672	+	49.9
Other reserves	1,427	154	+	831.5
Retained profits*	<u>5,339</u>	<u>8,874</u>	-	39.8
Total	<u>27,963</u>	<u>26,163</u>	+	6.9
Proposed dividends, not provided for	<u>33</u>	<u>1,858</u>	-	98.2

\* A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the Hong Kong Monetary Authority. As at 31<sup>st</sup> December, 2008, HK\$1,996 million (2007: HK\$2,100 million) was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the Hong Kong Monetary Authority.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### A. Capital Adequacy Ratio and Capital Base

(a) Capital adequacy ratio	<u>2008</u>	<u>2007</u>
	%	%
Capital adequacy ratio as at 31 <sup>st</sup> December	13.8	12.6
Core capital adequacy ratio as at 31 <sup>st</sup> December	9.1	7.4

Capital ratios at 31<sup>st</sup> December, 2008 and 31<sup>st</sup> December, 2007 were compiled in accordance with the Banking (Capital) Rules (“the Capital Rules”) issued by the Hong Kong Monetary Authority under Section 98A of the Hong Kong Banking Ordinance for the implementation of the “Basel II” capital accord, which became effective on 1<sup>st</sup> January, 2007. 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 calculation of capital ratios under the Capital Rules follows the basis of consolidation for financial reporting with the exclusion of subsidiaries which are “regulated financial entities” (e.g. insurance and securities companies) as defined by the Capital Rules. Accordingly, the investment costs of these unconsolidated regulated financial entities are deducted from the capital base.

(b) Group capital base after deductions

	2008	2007
	HK\$ Mn	HK\$ Mn
Core capital		
Paid up ordinary share capital	4,183	3,936
Share premium	4,922	1,118
Reserves	18,308	16,884
Profit and loss account	(71)	873
Deduct: Goodwill	(1,624)	(1,616)
Net deferred tax assets	(119)	-
Other intangible assets	(29)	(11)
	<u>25,570</u>	<u>21,184</u>
Less: Core capital items deductions	<u>(2,749)</u>	<u>(2,742)</u>
Total core capital	<u>22,821</u>	<u>18,442</u>
Eligible supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	801	788
Revaluation reserves for fair value gains on revaluation of holdings of available-for-sale equities and debt securities	-	128
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	-	2
Regulatory reserve for general banking risks	156	247
Collectively assessed impairment allowances	42	51
Surplus provisions	1,024	694
Perpetual subordinated debt	3,356	4,661
Term subordinated debt	8,899	8,952
	<u>14,278</u>	<u>15,523</u>
Less: Supplementary capital items deductions	<u>(2,749)</u>	<u>(2,742)</u>
Total supplementary capital	<u>11,529</u>	<u>12,781</u>
Total capital base	<u><u>34,350</u></u>	<u><u>31,223</u></u>

**B. Liquidity Ratio**

	<u>2008</u>	<u>2007</u>
	%	%
Average liquidity ratio for the year	38.4	43.5

The average liquidity ratio for the year is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

### C. Cross-border Claims

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

	2008			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	31,237	2,867	49,999	84,103
Asian countries, excluding People's Republic of China	17,388	1,703	11,797	30,888
North America	11,688	10	10,028	21,726
Western Europe	70,048	-	2,383	72,431
	2007			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	27,967	3,720	35,375	67,062
Asian countries, excluding People's Republic of China	14,535	1,471	11,478	27,484
North America	7,101	5,303	8,947	21,351
Western Europe	67,486	-	4,784	72,270

### D. Non-bank Mainland Exposures

The total direct non-bank Mainland exposures and the individual impairment allowances are as follows:-

	2008			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<u>Type of counterparties</u>				
Mainland entities	92,563	14,764	107,327	60
Companies and individuals outside Mainland where the credit is granted for use in Mainland	13,804	2,192	15,996	37
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	4,266	43	4,309	-
<b>Total</b>	<b>110,633</b>	<b>16,999</b>	<b>127,632</b>	<b>97</b>

	2007			
	On-balance sheet exposure HK\$ Mn	Off-balance sheet exposure HK\$ Mn	Total HK\$ Mn	Individual impairment allowance HK\$ Mn
<u>Type of counterparties</u>				
Mainland entities	76,128	15,247	91,375	184
Companies and individuals outside Mainland where the credit is granted for use in Mainland	11,848	2,785	14,633	1
Other counterparties the exposures to whom are considered to be non- bank Mainland exposures	1,729	27	1,756	-
Total	<u>89,705</u>	<u>18,059</u>	<u>107,764</u>	<u>185</u>

## E. Overdue, Rescheduled and Repossessed Assets

### (a) Overdue and rescheduled advances

	2008		2007	
	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	233	0.1	151	0.1
- 1 year or less but over 6 months	229	0.1	168	0.1
- Over 1 year	171	0.1	149	0.0
	<u>633</u>	<u>0.3</u>	<u>468</u>	<u>0.2</u>
Rescheduled advances to customers	<u>239</u>	<u>0.1</u>	<u>283</u>	<u>0.1</u>
Total overdue and rescheduled advances	<u>872</u>	<u>0.4</u>	<u>751</u>	<u>0.3</u>
Secured overdue advances	<u>261</u>	<u>0.1</u>	<u>261</u>	<u>0.1</u>
Unsecured overdue advances	<u>372</u>	<u>0.2</u>	<u>207</u>	<u>0.1</u>
Market value of security held against secured overdue advances	<u>1,542</u>		<u>1,553</u>	
Individual impairment allowance made on loans overdue for more than 3 months	<u>231</u>		<u>136</u>	

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

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

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



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

- (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

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 31<sup>st</sup> December, 2008 and 31<sup>st</sup> December, 2007; nor were there any rescheduled advances to banks and other financial institutions on these two dates.

(b) Other overdue and rescheduled assets

	2008		2007	
	Accrued interest HK\$ Mn	Other assets* HK\$ Mn	Accrued interest HK\$ Mn	Other assets* HK\$ Mn
Other assets overdue for				
- 6 months or less but over 3 months	-	3	-	-
- 1 year or less but over 6 months	1	-	1	-
- Over 1 year	-	-	1	4
	<u>1</u>	<u>3</u>	<u>2</u>	<u>4</u>
Rescheduled assets	-	-	-	-
Total other overdue and rescheduled assets	<u>1</u>	<u>3</u>	<u>2</u>	<u>4</u>

\* Other assets refer to trade bills and receivables.

(c) Repossessed assets

	2008 HK\$ Mn	2007 HK\$ Mn
Reposessed land and buildings *	57	19
Reposessed vehicles and equipment	1	1
Total reposessed assets	<u>58</u>	<u>20</u>

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

\* The balance included HK\$37 million (2007: HK\$15 million) relating to properties that were contracted for sale but not yet completed.

## **STATEMENT OF COMPLIANCE**

- (1) In preparing the accounts for 2008, the Bank has fully complied with the Banking (Disclosure) Rules.
- (2) Being the largest independent local bank in Hong Kong, the Bank is committed to maintaining the highest corporate governance standards. The Board considers such commitment essential in balancing the interests of shareholders, customers and employees; and in upholding accountability and transparency.

The Bank has complied with all the Code Provisions set out in Appendix 14 Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting year ended 31<sup>st</sup> December, 2008, except for a deviation from Code Provision A.2.1 of the Code, and non-compliance with Rules 3.10(2) and 3.21 of the Listing Rules during the period from 15<sup>th</sup> August, 2008 to 14<sup>th</sup> December, 2008. Details are 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 balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals and meets regularly every two months to discuss issues affecting operations of the Bank. There is a strong independent element in the composition of the Board. Out of the 18 Board members, 9 are Independent Non-executive Directors. The Board believes that the current structure is conducive to strong and consistent leadership, enabling the Bank to make and implement decisions promptly and efficiently. The Board believes that Sir David's appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects and management of the Bank.

Rule 3.10(2) stipulates that at least one of the independent non-executive directors on the board must have appropriate professional qualifications or accounting or related financial management expertise. Rule 3.21 stipulates that at least one of the members of the audit committee must be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2). The late Mr. Tan Man-kou, Independent Non-executive Director and member of the Audit Committee, satisfied the requirements of Rules 3.10(2) and 3.21. Following the passing of Mr. Tan Man-kou on 14<sup>th</sup> August, 2008, the Bank appointed Mr. Valiant Cheung Kin-piu who satisfies the requirements of Rules 3.10(2) and 3.21 as an Independent Non-executive Director and Member of the Audit Committee on 15<sup>th</sup> December, 2008 to ensure full compliance with Rules 3.10(2) and 3.21 of the Listing Rules.

## **FINAL DIVIDEND AND BONUS ISSUE OF SHARES**

At the forthcoming Annual General Meeting to be held on Thursday, 16<sup>th</sup> April, 2009 ("2009 AGM"), the Directors will propose a final dividend of HK\$0.02 (2007: HK\$1.18) per share for the year ended 31<sup>st</sup> December, 2008, which, together with the interim dividend of HK\$0.23 per share paid in September 2008, will constitute a total dividend of HK\$0.25 (2007: HK\$1.66) per share for the full year. The final dividend will be paid on 17<sup>th</sup> April, 2009 in cash, with an option to receive new, fully paid shares in lieu of cash ("Scrip Dividend Scheme"). Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Monday, 23<sup>rd</sup> March, 2009.

The Directors will also propose at the 2009 AGM, to make a bonus issue of shares (the "Bonus Shares") to the shareholders of the Bank on the basis of one share for every ten shares then held (the "Bonus Issue"). The Bonus Shares will be issued and allotted to shareholders on 17<sup>th</sup> April, 2009. Details of the Bonus Issue will be sent to the shareholders on or about Monday, 23<sup>rd</sup> March, 2009.

Shareholders whose names appear on the Register of Members at the close of business on Monday, 23<sup>rd</sup> March, 2009, will be entitled to the proposed final dividend and the proposed Bonus Issue.

The Scrip Dividend Scheme and the Bonus Issue are conditional upon the passing of the relevant resolutions at the 2009 AGM and the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme and the Bonus Issue. The dividend warrants and the share certificates for the Scrip Dividend Scheme, and the share certificates for the Bonus Issue, will be sent to shareholders by ordinary mail on or about Friday, 17<sup>th</sup> April, 2009.

## **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 proposed final dividend and the proposed Bonus Issue, the Register of Members of the Bank will be closed from Friday, 20<sup>th</sup> March, 2009 to Monday, 23<sup>rd</sup> March, 2009, both days inclusive. In order to qualify for the proposed final dividend and the proposed Bonus Issue, all transfer documents should be lodged for registration with Tricor Standard Limited\* by 4:00 p.m. Thursday, 19<sup>th</sup> March, 2009.
- (b) For the purpose of determining shareholders who are entitled to attend and vote at the 2009 AGM, the Register of Members of the Bank will be closed from Wednesday, 15<sup>th</sup> April, 2009 to Thursday, 16<sup>th</sup> April, 2009, both days inclusive. In order to qualify for attending and voting at the 2009 AGM, all transfer documents should be lodged for registration with Tricor Standard Limited\* by 4:00 p.m. Tuesday, 14<sup>th</sup> April, 2009.

*\*Address: 26<sup>th</sup> Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong*

## **DEALINGS IN LISTED SECURITIES OF THE BANK**

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of listed securities of the Bank during the year ended 31<sup>st</sup> December, 2008.

## CHAIRMAN'S STATEMENT

The financial tsunami that swept over the global economy in September 2008 has left a bleak economic landscape in its wake. This has led to a sudden and sharp plunge in new business for local and regional companies and the unprecedented scale of the decline is destined to have a significant impact well into 2009. The economic outlook for the second half of the year very much depends on the ability of the United States to recover from the deepening housing market crisis and credit squeeze. Until the United States is able to engineer a recovery, all eyes will be on China as a pillar of economic stability.

During the coming year, BEA will continue to leverage its strong position on the Mainland to provide new growth opportunities and to cushion the Bank from the impact of the recession in the United States. The Bank is uniquely placed to execute this strategy, having taken steps to further enhance its franchise on the Mainland during 2008. Significantly, The Bank of East Asia (China) Limited launched both RMB debit cards and RMB credit cards during the past year, becoming the first foreign bank operating on the Mainland to do so. The Bank also further expanded and strengthened its branch network, and will maintain an aggressive branch expansion strategy during 2009. In addition, the Bank will adhere to an ambitious timetable for the roll out of new products and services for Mainland customers, expanding its product range in the areas of local and foreign currency business, trade finance, personal cyber-banking, SupremeGold and private banking, and corporate wealth management.

In Hong Kong, BEA will place more emphasis on traditional banking business and products, including corporate banking, small-and-medium-size enterprise business, and consumer finance. Management will continue to manage the asset and liability mix proactively, in order to boost interest income and diversify revenue streams. In addition, the Bank will further leverage cross-selling opportunities with Group companies, Tricor Group, Blue Cross (Asia-Pacific) Insurance Limited and BEA Life, in order to raise fee-based income. BEA will also continue to identify and explore new acquisitions and strategic alliances.

In overseas markets, BEA will maintain its focus on its niche market position with overseas Chinese communities, taking advantage of links to the resilient Mainland economy to promote new business despite the weak economic environment in North America and Britain.

Enhanced operating efficiency will be a key driver of success in 2009. The Bank will fast track new initiatives to improve operating processes and to control costs. BEA will further enhance its risk assessment capability, and strengthen both the management framework and corporate governance to ensure that the Bank is well-positioned to emerge from the current economic conditions stronger and better able to take advantage of new opportunities.

I was greatly saddened by the passing of Mr. Tan Man-kou, Independent Non-executive Director, on 14<sup>th</sup> August, 2008. To fill the vacancy left by Mr. Tan, the Board of Directors appointed Mr. Valiant Cheung Kin-piu as an Independent Non-executive Director effective from 15<sup>th</sup> December, 2008. With Mr. Cheung's wealth of experience, I am confident that his contribution to the Board will lead to the further success of the BEA Group.

Mr. Joseph Pang Yuk-wing, an Executive Director and Deputy Chief Executive of the Bank, will retire and resign as a Director of the Bank upon the conclusion of the Annual General Meeting to be held on Thursday, 16<sup>th</sup> April, 2009. Mr. Pang has spent his entire working career with the Bank. He joined BEA in 1973 and was appointed an Executive Director and Deputy Chief Executive in 1995. He has served the Bank loyally for over 35 years, playing a significant role in its growth. On behalf of the Board, I would like to express our heartfelt gratitude to Mr. Pang for his invaluable contribution to BEA over the past 35 years, and I wish him great happiness, good health and success for the future.

In this our 90<sup>th</sup> year, we celebrate nine decades of partnership with the people of Hong Kong. Throughout our history, we have worked together with the local community to help individuals realise their dreams; to help families prosper; and to help businesses grow. I take this opportunity to express our sincere thanks to our valued customers, friends and business associates for their loyal patronage and support through the years. With their support together with the wisdom and experience of our Board and the professionalism of our colleagues, we look forward to even greater success in the decades to come.

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

Hong Kong, 17<sup>th</sup> February, 2009

## **EXECUTIVE DIRECTORS' REPORT**

### **FINANCIAL REVIEW**

#### **Financial Performance**

Global financial markets suffered an unprecedented upheaval in the last quarter of 2008, damaging business confidence throughout the world. The BEA Group faced the challenge with decisive action, disposing of or writing down to zero value its entire collateralised debt obligation (CDO) portfolio. As a result of this action, the BEA Group enters 2009 with a strong balance sheet and no further downside exposure to the CDO market.

After accounting for the HK\$3.5 billion one-off write down of the CDO portfolio, the BEA Group recorded a profit after tax of HK\$104 million for the year ended 31st December, 2008.

Despite the adverse market conditions, BEA Group sustained its core business growth during 2008. The Bank Group recorded a rise in net interest income of HK\$816 million, or 13.7%, to HK\$6,793 million, principally due to the performance of banking operations on the Mainland. However, the Bank Group's non-interest income decreased by HK\$3,173 million, or 111.9%, mainly due to the loss on CDOs and a decrease in net trading profits. As a result, total operating income decreased by 26.7% to HK\$6,457 million.

Operating expenses increased by 23.2% compared to 2007, to HK\$5,779 million, due to the continuing expansion of the Group's activities. Operating profit before impairment losses was HK\$678 million, a decrease of HK\$3,445 million, or 83.6%, as compared with 2007.

In light of the increase in credit risk in global credit markets, the Bank Group has taken appropriate steps to control impairment losses on loans and advances. Impairment losses increased by HK\$342 million, or 157.8%, when compared with last year. Impairment losses on notes issued by SIVs and other available-for-sale financial assets totalled HK\$396 million, leading to an increase in total impairment losses of HK\$553 million, a rise of 140.2%.

The net profit on disposal of available-for-sale financial assets decreased to HK\$197 million. Net profit on sale of subsidiaries or associates also fell, as during 2007 the Group recorded an exceptional gain on the sale of a 49% interest in a wholly-owned subsidiary for a profit of HK\$406 million.

Due to the impact of the financial crisis, the Bank Group recorded a valuation loss on investment properties of HK\$168 million in 2008, after recognising a HK\$293 million valuation gain in 2007. The Bank Group recorded a net profit on disposal of fixed assets of HK\$178 million for the year 2008, mainly due to the disposal of the former branch building in Singapore.

After accounting for income taxes, profit after taxation was HK\$104 million, a decrease of 97.5% compared to the HK\$4,221 million recorded the previous year. Profit attributable to equity holders of the Group was HK\$39 million, representing a decrease of 99.1%. Basic earnings per share were HK\$0.02. Return on average assets and return on average equity were 0.01% and 0.12%, respectively.

#### **Final Dividend and Bonus Issue of Shares**

At the forthcoming Annual General Meeting, to be held on Thursday, 16<sup>th</sup> April, 2009, the Directors will propose a final dividend of HK\$0.02 per share, which, together with the interim dividend of HK\$0.23 per share that was paid in September 2008, will constitute a total dividend of HK\$0.25 per share for the full year (2007: HK\$1.66 per share).

In celebration of the Bank's 90<sup>th</sup> Anniversary, the Directors will also propose a bonus issue of shares to the shareholders of the Bank, on the basis of one new ordinary share of HK\$2.50 each for every ten ordinary shares held.

## Financial Position

Total consolidated assets of the BEA Group were HK\$415,254 million at the end of 2008, an increase of 5.4% from HK\$393,979 million at the end of 2007. Advances to customers increased to HK\$230,339 million, a rise of 5.6%. Total equity increased to HK\$32,485 million, a rise of 6.7%.

Demand deposits and current accounts increased by a combined HK\$6,342 million to HK\$36,332 million. The amount in savings accounts decreased to HK\$45,781 million, a drop of HK\$3,435 million. The value of time deposits at year-end 2008 stood at HK\$241,689 million, an increase of HK\$36,709 million, when compared with the balance at the end of 2007. Customer deposits rose by 13.9% to HK\$323,802 million, while total deposits increased by 11.1% to HK\$329,293 million. Certificates of deposit and subordinated debt issued stood at HK\$16,527 million.

During 2008, BEA issued HKD fixed rate certificates of deposit with a face value of HK\$1,450 million, HKD floating rate certificates of deposit with a face value of HK\$450 million, USD fixed rate certificates of deposit with a face value of US\$65 million and USD floating rate certificates of deposit with a face value of US\$115 million. The Bank redeemed a quantity of certificates of deposit amounting to HK\$9,954 million equivalent upon maturity, and repurchased its own certificates of deposit amounting to HK\$6 million equivalent. The Bank also issued and redeemed a number of short term TWD fixed rate certificates of deposit.

After taking into account all debt instruments issued, the loan-to-deposit ratio was 69.9% at the end of 2008, 3.7% lower than the 73.6% reported at the end of 2007.

At the end of December 2008, the face value of the outstanding debt portfolio was HK\$5,699 million, with the carrying amount equal to HK\$5,491 million.

### Maturity Profile of Debts Issued

As at 31<sup>st</sup> December, 2008

(All expressed in millions of dollars)

	Currency	Total Face Value	Year of Maturity						
			2009	2010	2011	2013	2014	2015	
<b>Floating Rate</b>									
<b>Certificates of Deposit</b>									
Issued in 2006	HKD	500	500						
Issued in 2008	HKD	450	350	100					
Issued in 2008	USD	80	50		30				
<b>Fixed Rate</b>									
<b>Certificates of Deposit</b>									
Issued in 2006	HKD	500	500						
Issued in 2008	HKD	1,150	650	500					
Issued in 2008	USD	65		50	15				
Issued in 2008	TWD	1,800	1,800						
<b>Zero Coupon</b>									
<b>Certificates of Deposit</b>									
Issued in 2006	USD	50			50				
Issued in 2007	USD	150				50	50	50	
<b>Total Debts issued in HKD equivalent</b>			5,699	2,812	987	736	388	388	388

## Maturity Profile of Loan Capital

As at 31<sup>st</sup> December, 2008

(All expressed in millions of dollars)

		<u>Currency</u>	<u>Total Face Value</u>	<u>Year of Maturity</u>		
				<u>2015</u>	<u>2017</u>	<u>Perpetual</u>
Issued in 2005	Note 1	USD	550	550		
Issued in 2007	Note 2	USD	600		600	
Issued in 2007	Note 3	GBP	300			300
<b>Total Loan Capital issued in HKD equivalent</b>			<u>12,277</u>	<u>4,263</u>	<u>4,650</u>	<u>3,364</u>

### Notes

1. Callable on 14<sup>th</sup> December, 2010
2. Callable on 22<sup>nd</sup> June, 2012
3. Callable on 21<sup>st</sup> March, 2012 and on each interest payment date thereafter

### Risk Management

The Bank has established comprehensive risk management procedures in line with the requirements set out by the Hong Kong Monetary Authority to identify, measure, monitor and control the various types of risk the Bank faces, including credit risk, market risk, liquidity risk and operational risk, and where appropriate, to allocate capital against those risks. All risk management policies have been approved by the Board of Directors, and risk management mechanisms have been established at different levels throughout the Group. This is supplemented by active management involvement, effective internal controls and comprehensive audits in the best interest of the Group.

The risk management mechanisms are built around a centralised framework and incorporate specialised risk management committees, namely: Credit Committee; Asset & Liability Management Committee; and Operational Risk Management Committee. These mechanisms capture the different risk-related management activities on a Group basis, including formulation of policies, setting up of procedures and control limits, on-going monitoring for observance, etc., before the same are reported via the Risk Management Committee to the Board of Directors so as to ensure compliance with the various bank policies, and legal and regulatory requirements in Hong Kong, the Mainland of China and overseas. The Chief Risk Officer ensures that appropriate measures are in place to enhance the overall risk management capability of the Bank Group.

## **OPERATIONS REVIEW**

### **Bank Run Incident**

The Bank responded quickly and forcefully to the bank run incident in September, successfully restoring confidence within 36 hours of the start of the run. The Bank Management first became aware of the spread of malicious and unfounded rumours questioning the stability of the Bank in the afternoon of 23<sup>rd</sup> September, 2008. In the first incident of its kind in Hong Kong, the rumours were initially spread via electronic text messaging and were widely disseminated in a short period of time.

The Bank immediately reported the matter to the Hong Kong Monetary Authority (“HKMA”) and the police. With the full support of the Hong Kong Special Administrative Region Government, the HKMA, various authorities, loyal customers, the media and shareholders, and the exceptional effort of the Bank’s dedicated employees, the run was very quickly contained.

Confidence was speedily restored, and any impact on the Bank’s deposit base was short-lived. At the end of 2008, deposits held by the Bank exceeded the total immediately prior to the bank run incident.

The Bank published announcements to thank all parties for their support. In addition, the Management paid courtesy calls to clients and to the branches to extend the Bank’s gratitude to loyal customers and dedicated staff.

Management has reviewed the incident to draw lessons that will further refine and strengthen the Bank’s emergency response planning regime.

### **Recognition**

During the past year, the Bank once again received numerous awards from its partners and independent organisations for its achievements, including:

- “2008 SME’s Best Partner” by The Hong Kong Chamber of Small and Medium Business Limited;
- the award for “2007 Highest Growth Rate in Commercial Products Cardholder Spending in Hong Kong – MasterCard”;
- second runner-up for “2007 Highest Growth Rate in Number of Open Cards in Hong Kong – MasterCard” from MasterCard Worldwide;
- second runner-up in the category “2007 Highest Number of Merchant Terminals – China Unionpay” by China Unionpay;
- Bronze Prize in the category “2007 Largest Merchant Sales Volume Growth – Visa” by VISA International; and
- Champion in the Top 3 HK Merchant Sales Volume Award and Top 3 HK Merchant Sales Volume Acquiring Bank Award in the “Visa Explorer Award Program”.

BEA subsidiaries, including The Bank of East Asia (China) Limited (“BEA China”), were also recognised for their achievements. Details of such recognitions are set out in the respective sections below.



## **Personal Banking**

### Branch Distribution

During 2008, Metro City Plaza Branch was expanded to provide a more spacious and pleasant environment to serve customers. Shamshuipo Branch and Castle Peak Road Branch were merged and relocated to a more prominent site, and a new SupremeGold Centre opened at the new branch location. In addition, SupremeGold centres were opened at Tai Wai Branch and Chuk Yuen Estate Branch, bringing the number of SupremeGold centres in Hong Kong to 48. At the end of January 2009, BEA also operated a total of 90 branches in Hong Kong.

### Cyberbanking

The Cyberbanking website was revamped in July 2008 to introduce a more intuitive and comprehensive user interface. As part of the Bank's commitment to service, the Cyberbanking website will be further enhanced as new services are offered.

The number of Cyberbanking customers continued to increase during the year. By the end of 2008, the Bank had more than 434,000 registered Cyberbanking users, representing a growth of 11% compared with the corresponding period last year. The average daily usage volume exceeded 278,000 transactions.

The Corporate Cyberbanking customer base also grew in 2008. By the end of 2008, over 21,600 corporate customers had registered with BEA's Corporate Cyberbanking, a year-on-year increase of 5%.

### Consumer Loans

#### *Consumer Finance Department*

The consumer loan segment was very active during 2008, and the Bank launched numerous marketing campaigns both on its own and in partnership with reputable corporations and professional firms. The Instalment Loan and Revolving Loan programme, incorporating a "Lucky Draw for Full Interest Rebate", was particularly well received.

#### *Credit Gain Finance*

Credit Gain Finance ("CGF") registered substantial growth in both its loan portfolio and its customer base. A series of marketing and advertising campaigns was launched via multi-media channels to enhance consumer awareness of the CGF brand. In addition, CGF pioneered a new product initiative – Descending Interest Rate Programme – which drew an encouraging response from the market.

In view of the intense competition in the loan market, CGF will continue to focus on innovative products and marketing campaigns in order to expand its market share.

### Credit Cards

The past year saw strong growth in BEA's credit card business. Sales and receivables both rose, as the aggregate card base grew to more than 1.1 million by the end of 2008.

A new card design was launched in May to reinforce the vibrant and dynamic image of the BEA credit card, and promote pride in carrying and using the BEA card.

Promotional activities were carried out throughout the year, with a focus on dining and entertainment in order to build habitual card usage. BEA partnered with UA Cinema Circuit Ltd to bring the BEA brand name to the BEA IMAX Theatre, while the re-launch of the FLY & DINE CLUB for the Platinum card segment further enhanced the appeal of the Bank's premiere card for the high-end credit card market.

The Bank has had particular success in attracting a younger client base, in particular the university student sector. These customers have the potential to become lifetime elite customers of the Bank.

In the year ahead, BEA will focus on increasing card usage and receivables based on the existing portfolio, enhancing customer service and the cardholder experience, and developing prudent risk management and expense control measures.

## Property Loans

Following the onset of the global financial tsunami, the number and value of property transactions plunged by over 20% in the last quarter of 2008. BEA continued to adopt an aggressive but prudent approach to acquire quality mortgage loan business.

Throughout the year, BEA collaborated with various property developers to provide end-user financing solutions to buyers of new flats.

## **Corporate Banking**

### Corporate Lending

The local corporate loan market experienced a significant slowdown during 2008, particularly in the second half of the year. Liquidity tightened even as loan demand slackened due to growing caution by local property investors and developers, and curtailed demand by Mainland enterprises due to weakening domestic demand. Despite these adverse conditions, BEA recorded moderate growth in loan volume and an upward adjustment in overall pricing to reflect the increasing risk premium.

BEA continued to maintain an active presence in the syndicated loan market in 2008, both as coordinating arranger and as a participant. Given the uncertain financial environment, BEA has focused on improving its yield return and expanding its client base in a prudent manner by focusing on high quality local and Mainland enterprises. The upcoming infrastructure projects sponsored by the Hong Kong Special Administrative Region and Central governments will generate new opportunities.

Commercial loan business recorded moderate growth despite a sudden downturn in the economy in the second half of the year, as local businesses suffered from reduced orders and lower cash flow amid the economic slowdown in the major export markets of North America and Europe.

BEA has long supported local small and medium sized enterprises ("SME") and is an active participant in government loan guarantee schemes. BEA was among the first banks to join the enhanced SME Loan Guarantee Scheme in November 2008, and the Special Loan Guarantee Scheme in December 2008.

BEA recorded double digit-growth in its equipment loan portfolio during 2008, due to increased marketing efforts and the acquisition of a loan portfolio from the market. However, from the latter part of 2008, manufacturers have become hesitant to expand their production capacity and have deferred expansion plans. Loan demand for machinery leasing therefore slowed toward the end of the year.

### Bank of East Asia (Trustees) Limited

#### *Mandatory Provident Fund*

In order to provide more flexibility to scheme members to manage their Mandatory Provident Fund (MPF) accounts effectively, BEA launched a new service, Cyberbanking (MPF), in February 2008. Cyberbanking (MPF) is a convenient and secure way for scheme members to access their BEA MPF accounts via the Internet. With this new service, scheme members may review their account balance, contribution and withdrawal history, current investments and obtain fund information.

In order to further strengthen the competitiveness of its MPF business in the marketplace, BEA reduced the fees associated with its Hong Kong Growth Fund under the Master Trust Scheme in June 2008.

#### *Trust Services*

In addition to the provision of MPF services, Bank of East Asia (Trustees) Limited also offers a wide range of professional trustee services to personal and institutional customers, covering wills, family trusts, investment funds, unit trusts, charities and public funds. In 2008, Hamon Ireland Limited appointed the company as the Hong Kong Representative for the Hamon Asian Funds. During the year, the company recorded a 15% rise in revenue from the private trust business.

## **Wealth Management**

### Structured Products

Structured product demand and sales remained reasonably strong in the first few months of 2008, and the Bank offered a wide range of products linked to equities, currencies and commodities. However, as global markets declined and volatilities rose, investors turned cautious and significantly reduced their risk appetite. Responding to the market environment, the Bank adjusted its strategy to limit the distribution of third party retail products and to focus on more conservative and simple product offerings.

The default of Lehman Brothers' "Minibonds" series, resulting from the collapse of Lehman Brothers in September, was a major blow to investors' confidence and has resulted in a significant fall in demand for retail investment products in Hong Kong. While the Bank was not a major distributor of "Minibonds", the Bank responded proactively in order to assist affected investors.

In September 2008, the Bank reported the discovery of unauthorised manipulation of the equity derivatives trading system by a trader. The Bank considered that this was an isolated incident. The incident was immediately reported to the relevant authorities and the Bank engaged KPMG to conduct a thorough review of internal control procedures. Following receipt of the final report, the Bank formed a working group to review KPMG's findings and take any necessary follow-up action, and restructured the trading operation to further strengthen controls. Going forward, the Bank will continue to develop and offer structured products to customers, geared to market demand.

### Investment Fund Services

Addressing the need for greater asset diversification, BEA launched three self-branded mutual funds in 2008, namely BEA Global Resources Fund, BEA Hong Kong Dollar Bond Fund and BEA Asian Bond and Currency Fund. The first is equities-based, and is targeted at more adventurous investors. The latter two funds are fixed-income products that cater for conservative investors looking for capital preservation. All three funds were well received by clients.

The Bank introduced an upgraded retail financial planning system during the year, providing clients with a wide range of useful information on their investments. BEA customers are now able to track the returns of their individual investments without the need to keep track each transaction detail. In addition, the Bank ran promotional campaigns throughout the year to encourage diversification and promote prudent investment habits.

### BEA Union Investment Management Limited ("BEA Union Investment")

BEA Union Investment continued to expand its business by developing new mutual funds and investment solutions for retail and Mandatory Provident Fund (MPF) investors. It also focused on acquiring new mandates from top tier Asian institutional investors and business partners. Despite the challenging environment, a positive aggregated net fund inflow was recorded during the year.

Since the formation of the joint venture last year, BEA Union Investment has succeeded in integrating the complementary strengths of BEA and Union Asset Management Holding AG. The "best of breeds" investment teams located in Hong Kong and Frankfurt enhanced the performance of BEA mutual funds and MPF products, as well as the investment portfolios of institutional clients.

Despite its short history, BEA Union Investment has quickly been recognised as a market leader, and received a total of four industry awards in 2008:

- "Best of the Best Performance Award in ASEAN Region (3 years)" and the "Best MPF Manager (5 years) – Merit Award" by Asia Asset Management;
- "Best QDII Wealth Management Product" and "Best Foreign Currency Wealth Management Product" for BEA's Jijinbao Series – BEA Hong Kong Growth Fund by China's 21st Century Business Herald.

### Insurance Business

BEA Life Limited ("BEA Life"), a wholly owned subsidiary of the Bank, commenced business in January 2008. It focuses on life insurance business and uses the Bank as its main distribution platform. It features an extensive range of life insurance products and services, including whole life,

endowment, annuity, retirement and term plans. Underwritten by BEA Life, the Bank launched its first self-branded investment-linked insurance plan, "Capital Link Insurance", in February. Life insurance sales were satisfactory in 2008, recording significant growth in terms of the New Business Index.

Blue Cross, the Bank's general insurance arm, also registered healthy growth in premium income. In addition, it has successfully launched new channels for many of its products, including the internet and telemarketing.

In recognition of its service excellence, Blue Cross received the following awards in 2008:

- "Capital Weekly Service Award 2008 – Medical Insurance" and the "Quality Life Award 2008 – Quality Insurance Service";
- "The Most Popular Travel Insurance Company" (for the 4th consecutive year), from Weekend Weekly Magazine; and
- "Caring Company 2008/09", from the Hong Kong Council of Social Service.

As part of its on-going effort to promote the well-being of the less fortunate within the community, Blue Cross also supported a series of charitable activities in conjunction with the Hong Kong Physically Handicapped and Able-Bodied Association (HKPHAB).

### Private Banking

The past year has seen an unprecedented level of global deleveraging, causing losses in nearly every asset class. The Bank's Private Banking business slowed in the second half of the year, as both experienced and novice investors retreated, fearing the worst is yet to come.

Despite the sluggish environment, BEA Private Banking expanded its client base by over 30% during the past year. With enhanced capabilities, the Bank will continue to innovate and expand its services to high-net-worth customers.

### **Investment Banking and Services**

#### East Asia Securities Company Limited – Securities Cybertrading

East Asia Securities is committed to using proven technology to improve and expand its brokerage service network. When compared with the corresponding period last year, the company registered a rise of 11% in the number of Cybertrading accounts. As of 31<sup>st</sup> December, 2008, more than 82% of the company's securities clients had subscribed to Cybertrading.

The volume of transactions executed via the Cybertrading platform, expressed as a percentage of total turnover, reached 63% of the number of trades and 20% of the gross transaction value during the period under review.

With the dramatic increase in the trading volume conducted through Cybertrading, East Asia Securities further upgraded its Automated Phone Service capacity in the second quarter of 2008.

#### East Asia Futures Limited – Futures Cybertrading

For the year 2008, despite the weak local market sentiment, East Asia Futures, the wholly-owned futures and option broking arm of the Bank, recorded a 10.6% rise in trading volume, as compared with the corresponding period last year. The volume of transactions executed via the Futures Cybertrading System, expressed as a percentage of total turnover, accounted for some 69% of the number of trades and 59% of the transaction value. As of 31<sup>st</sup> December, 2008, more than 73% of the company's clients had subscribed to the Futures Cybertrading Service.

East Asia Futures completed a software and hardware upgrade in the third and fourth quarters of 2008, respectively. Both the function and performance of the electronic trading system has been greatly enhanced.

With a view to enlarging its client base and boosting the usage of its electronic trading platform, East Asia Futures will launch various promotional campaigns in 2009.

## China Operations

BEA's locally incorporated subsidiary bank on the Mainland, BEA China, celebrated its first full year of operations in 2008. It continues to maintain a leading position as one of the largest locally incorporated foreign banks on the Mainland.

With 69 outlets, BEA and BEA China currently operate one of the most extensive networks of any foreign bank on the Mainland. BEA China added a total of 19 new outlets in 2008, including the conversion of BEA Tianjin Representative Office to a full branch, the establishment of 2 new branches in Urumqi and Hefei, as well as the opening of 16 new sub-branches. BEA China is the first locally incorporated foreign bank to set up branches in Urumqi and Hefei.

In order to provide added convenience for customers, BEA China introduced a new banking concept – 24-hour self-service banking centres – during 2008. The first two centres were opened in Shanghai, enabling BEA China customers to carry out a wide range of banking transactions at any time.

The expansion of BEA China's service coverage was also greatly aided with the addition of 155 new Automatic Teller Machines (ATMs), bringing the total from 95 at the end of 2007 to 250 at the end of 2008.

In May 2008, BEA China became the first foreign bank to launch Renminbi debit cards on the Mainland and, in December 2008, partnered with *Nanjing Hong Kong and China Gas Company Limited* to launch BEA China's first co-branded debit card. BEA China's pioneering position was further affirmed in December 2008 with the launch of the first Renminbi credit card by a locally incorporated foreign bank. BEA China customers can use their debit and credit cards at China UnionPay-affiliated outlets to settle transactions, as well as at all China UnionPay-affiliated ATMs to withdraw cash, both in China and overseas.

BEA China's Personal Cyberbanking Service was upgraded in October 2008 to provide customers with a higher level of security, enhanced functions and greater convenience.

In addition, BEA China launched a private banking service in April 2008, with the opening of private banking centres in Beijing, Shanghai, Guangzhou and Shenzhen.

The pioneering spirit and achievements of BEA China in 2008 have been recognised through a number of awards, including:

- "Retail Financial Service Brand", in the 2008 China Business News Financial Brand Ranking;
- "Best Foreign Retail Bank", in the 2008 Asian Banks Competitive Rankings held during the 21st Century Annual Finance Summit of Asia; and
- "2008 Best Internet Banking among Foreign Banks in China", awarded by China Internet Weekly.

Despite the impact of the financial crisis on the global economy, BEA China has maintained its steady growth in 2008. BEA China will continue to leverage BEA's banking expertise to maintain its leading position on the Mainland.

BEA expanded its presence in Macau by opening a sub-branch in Taipa in March 2008, and setting up four ATMs in the second half of 2008. At present, BEA has four outlets and 10 ATMs in Macau.

The Bank also maintains two branches in Taipei and Kaohsiung of Taiwan. With the support of our extensive branch network in Hong Kong, Macau and Mainland China, BEA's Taiwan branches are able to provide customers with a comprehensive range of banking services, in particular, cross-strait banking services to meet the growing banking needs arising from closer business ties between Taiwan and the Mainland.

## Overseas Operations

In 2008, The Bank of East Asia (U.S.A) N.A. ("BEA-USA") opened three new branches in California, in San Gabriel, Los Angeles County; South San Francisco; and San Francisco Chinatown. The branch in the City of Industry was relocated to Hacienda Heights in June 2008. All of the new branches are in premier locations, providing individuals and businesses alike with more convenient access to the Bank's full range of banking services.

As part of its strategic plan, BEA-USA will open a new branch in Oakland in the San Francisco Bay Area, and merge its branch in the San Francisco Financial District into the San Francisco Chinatown Branch in January 2009. By the end of the first quarter of 2009, BEA will have 16 offices in the United States, covering New York and California.

The Bank's subsidiary in Canada, The Bank of East Asia (Canada), achieved a 10% growth in loan assets during the year.

In the United Kingdom, the two branches in London and Birmingham continued to perform well. The Bank launched a new product – Mini Cash Saving Account – in March 2008. A new Debit Card service is expected to be launched in the second half of 2009. The Bank is also conducting a feasibility study on the launch of local Internet banking services.

BEA Singapore Branch completed the disposal of its building at 137 Market Street. Construction work for the new BEA Singapore Branch Building at 60 Robinson Road is on schedule. The new building is expected to be ready for occupancy by the third quarter of 2009.

BEA Labuan Branch operates in Malaysia under an offshore banking licence. The Branch focuses on wholesale banking. It achieved a 5% growth in loan assets during the year.

With the establishment of Tricor Malaysia in December 2008, BEA's Representative Office in Kuala Lumpur will take an active role in cross referrals of business between Tricor Malaysia and Affin Bank Berhad, the Bank's affiliate in which BEA has a 20.5% shareholding through an investment in Affin Holdings Berhad.

## **Corporate Services**

The BEA Group, through Group member Tricor Holdings Limited ("Tricor"), is a leading provider of business, corporate and investor services in the region. These services include accounting, company formation, corporate compliance and company secretarial, executive search and selection, initial public offerings ("IPO") and share registration, payroll outsourcing and fund and trust administration.

Tricor's business was not immune to the economic downturn in 2008. The depressed IPO activity in the capital markets in Hong Kong has had an adverse impact on Tricor's revenue from IPO and share registration services. The demand for Tricor's accounting, payroll outsourcing, corporate compliance and secretarial services, which remained strong during the first six months of 2008, started to feel the pinch of the economic downturn in the second half of the year. There was a decline in Tricor's business servicing inward investment into Hong Kong and Greater China. There was also pressure on fees from clients suffering as a result of the global economic malaise. Despite the above, Tricor's gross revenue for 2008 reached a new high, making an important contribution to the BEA Group's fee and commission income earnings. However, Tricor's net profit margin declined slightly during the year.

The first quarter of 2008 saw the establishment of a Tricor office in the United Kingdom, as well as the completion of the acquisition of a major corporate services group in Malaysia, making Tricor Malaysia the leading corporate services practice in the country. During the second half of 2008, Tricor acquired the corporate services practice of Ernst & Young in Brunei, and also took up a minority interest in a professional service firm in Jakarta. The overseas operation, with its growing number of offices, made an important contribution to Tricor's total revenue during the year. Tricor now operates in 20 cities and employs over 1,400 professional and support staff, compared with a staff complement of 1,150 at the beginning of the year.

2009 is likely to be a difficult year for Tricor. To maintain its profitability, Tricor will continue to expand its global network, enlarge its scope of services and look for new business opportunities.

## Human Resources

Bank of East Asia Group employees at the end of December 2008:

Hong Kong	5,383
Other Greater China	4,321
Overseas	1,159
<hr/>	<hr/>
Total	10,863

The Bank views its staff members as its most valuable asset. The Bank reviews its human resource policies and compensation benefits on a regular basis to, on the one hand, retain and motivate talented individuals, and, on the other, monitor and control staff costs to enhance the performance of the Bank.

The Bank continuously reviews its training programmes, providing a wide range of opportunities for skills upgrading and personal advancement. During the latter half of 2008, special training courses were offered to staff members to assist them to cope effectively with the rapid changes brought about by the financial turmoil.

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

**Joseph PANG Yuk-wing**  
Executive Director

Hong Kong, 17<sup>th</sup> February, 2009

*As at the date of this announcement, the Executive Directors of the Bank are: Dr. The Hon. Sir David LI Kwok-po (Chairman & Chief Executive) and Mr. Joseph PANG Yuk-wing (Deputy Chief Executive); Non-executive Directors of the Bank are: Mr. Aubrey LI Kwok-sing, Professor Arthur LI Kwok-cheung, Dr. William MONG Man-wai, Tan Sri Dr. KHOO Kay-peng, Mr. Richard LI Tzar-kai, Mr. Eric LI Fook-chuen and Mr. Stephen Charles LI Kwok-sze; and Independent Non-executive Directors are: Mr. WONG Chung-hin, Dr. LEE Shau-kee, Dr. Allan WONG Chi-yun, Mr. Winston LO Yau-lai, Mr. Thomas KWOK Ping-kwong, Mr. Kenneth LO Chin-ming, Mr. William DOO Wai-hoi, Mr. KUOK Khoon-ean and Mr. Valiant CHEUNG Kin-piu.*