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## The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

### ANNOUNCEMENT OF 2009 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, 2009. 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 2009 annual accounts.

#### 1. Consolidated Income Statement

	2009 HK\$ Mn	2008 HK\$ Mn	Variance %	
Interest income	12,121	17,465	-	30.6
Interest expense	(5,374)	(10,672)	-	49.6
Net interest income	6,747	6,793	-	0.7
Fee and commission income	2,799	2,618	+	6.9
Fee and commission expense	(537)	(473)	+	13.6
Net fee and commission	2,262	2,145	+	5.5
Net trading profits/(losses)	941	(1,292)	+	172.9
Net result from financial instruments designated at fair value through profit or loss	(267)	(1,612)	-	83.4
Other operating income	505	423	+	19.5
Non-interest income/(expense)	3,441	(336)	+	1,122.4
Operating income	10,188	6,457	+	57.8
Operating expenses	(6,129)	(5,779)	+	6.1
Operating profit before impairment losses	4,059	678	+	498.8
Impairment losses on loans and advances	(1,105)	(558)	+	98.0
Impairment losses on held-to-maturity investments	(9)	(44)	-	79.5
Impairment losses on available-for-sale financial assets	(14)	(352)	-	96.1
(Charge for)/Write back of impairment losses on bank premises	(13)	6	+	331.5
Impairment losses	(1,141)	(948)	+	20.3
Operating profit/(loss) after impairment losses	2,918	(270)	+	1,178.2
Net (loss)/profit on sale of held-to-maturity investments	(12)	25	-	146.2
Net profit on sale of available-for-sale financial assets	102	197	-	48.4
Net profit on sale of loans and receivables	2	1	+	112.9
Net loss on sale of subsidiaries/associates	-	(8)	-	97.5
Net profit on sale of fixed assets	16	178	-	90.5
Valuation gains/(losses) on investment properties	206	(168)	+	222.3
Share of profits less losses on associates	264	53	+	398.9
Profit for the year before taxation	3,496	8	+	48,072.2
Income tax				
Current tax <sup>b</sup>				
- Hong Kong	(73)	(64)	+	13.9
- Overseas	(454)	(566)	-	19.7
Deferred tax	(331)	726	+	145.5
Profit for the year after taxation	2,638	104	+	2,445.1
Attributable to:				
Owners of the parent	2,565	39	+	6,510.0
Minority interest	73	65	+	11.7
Profit after taxation	2,638	104	+	2,445.1
Proposed final dividend per share	HK\$0.48	HK\$0.02	+	2,300.0
Bonus issue of shares	-	one for ten		
Per share				
- Basic earnings <sup>c</sup>	HK\$1.36	HK\$0.02	+	6,700.0
- Diluted earnings <sup>c</sup>	HK\$1.36	HK\$0.02	+	6,700.0
- Dividends	HK\$0.76	HK\$0.23	+	230.4

## 2. Consolidated Statement of Comprehensive Income

	<u>2009</u>	<u>2008</u>	<u>Variance</u>	
	HK\$ Mn	HK\$ Mn		%
Net profit	<u>2,638</u>	<u>104</u>	+	2,445.1
Other comprehensive income/(expense) for the year (after taxation and reclassification adjustments):				
Premises:				
- unrealized surplus on revaluation of premises	97	10	+	916.8
- deferred taxes	(26)	13	-	298.8
- effect on opening balances resulting from decrease in tax rate	-	(10)	+	100.0
- exchange differences	-	(1)	+	100.0
Available-for-sale investment revaluation reserve:				
- fair value changes taken to/(from) equity	575	(839)	+	168.6
- fair value changes transferred from/(to) income statement:				
- on impairment and amortisation	11	153	-	92.8
- on disposal	(29)	(115)	-	74.9
- deferred taxes	(43)	93	-	147.0
- effect on opening balances resulting from decrease in tax rate	-	5	-	100.0
Share of changes in equity of associates	17	(22)	+	174.9
Exchange differences on translation of:				
- financial statements of overseas branches, subsidiaries and associates	<u>163</u>	<u>356</u>	-	54.3
Other comprehensive income/(expense)	<u>765</u>	<u>(357)</u>	+	315.2
Total comprehensive income/(expense)	<u><u>3,403</u></u>	<u><u>(253)</u></u>	+	1,451.8
Total comprehensive income/(expense) attributable to:				
Owners of the parent	3,330	(318)	+	1,152.1
Minority interest	<u>73</u>	<u>65</u>	+	11.7
	<u><u>3,403</u></u>	<u><u>(253)</u></u>	+	1,451.8

### 3. Consolidated Statement of Financial Position

	2009	2008	Variance	
	HK\$ Mn	HK\$ Mn		%
<b>ASSETS</b>				
Cash and balances with banks and other financial institutions	29,712	28,105	+	5.7
Placements with banks and other financial institutions	67,945	96,574	-	29.6
Trade bills	1,847	1,164	+	58.7
Trading assets	5,722	3,437	+	66.5
Financial assets designated at fair value through profit or loss	10,392	4,130	+	151.6
Advances to customers and other accounts	261,803	243,725	+	7.4
Available-for-sale financial assets	30,883	18,560	+	66.4
Held-to-maturity investments	7,239	5,006	+	44.6
Investments in associates	2,615	2,486	+	5.2
Fixed assets	11,467	9,146	+	25.4
- Investment properties	2,095	1,839	+	14.0
- Other property and equipment	9,372	7,307	+	28.3
Goodwill and intangible assets	4,135	2,734	+	51.2
Deferred tax assets	322	187	+	72.3
<b>Total Assets</b>	<b>434,082</b>	<b>415,254</b>	<b>+</b>	<b>4.5</b>
<b>EQUITY AND LIABILITIES</b>				
Deposits and balances of banks and other financial institutions	11,886	27,045	-	56.1
Deposits from customers	342,528	323,802	+	5.8
Trading liabilities	1,455	2,846	-	48.8
Certificates of deposit issued	2,812	5,491	-	48.8
- At fair value through profit or loss	2,442	3,777	-	35.3
- At amortised cost	370	1,714	-	78.4
Current taxation	147	333	-	56.1
Debt securities issued	4,346	-	-	-
Deferred tax liabilities	520	77	+	574.1
Other accounts and provisions	18,506	12,139	+	52.5
Loan capital	12,359	11,036	+	12.0
- At fair value through profit or loss	7,712	6,395	+	20.6
- At amortised cost	4,647	4,641	+	0.1
<b>Total Liabilities</b>	<b>394,559</b>	<b>382,769</b>	<b>+</b>	<b>3.1</b>
Share capital	4,623	4,183	+	10.5
Reserves	30,542	27,963	+	9.2
Total equity attributable to owners of the parent	35,165	32,146	+	9.4
Minority interest	4,358	339	+	1,187.0
<b>Total Equity</b>	<b>39,523</b>	<b>32,485</b>	<b>+</b>	<b>21.7</b>
<b>Total Equity and Liabilities</b>	<b>434,082</b>	<b>415,254</b>	<b>+</b>	<b>4.5</b>

#### 4. Consolidated Statement of Changes in Equity

	Share capital	Share premium	Capital reserve – staff share options issued	Exchange revaluation reserve	Investment revaluation reserve	Revaluation reserve of bank premises	Capital reserve	General reserve	Other reserves	Retained profits	Total	Minority interest	Total equity
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1 <sup>st</sup> January, 2009	4,183	4,922	125	1,006	(228)	863	86	14,634	1,216	5,339	32,146	339	32,485
Changes in equity													
Shares issued in lieu of dividend	17	(17)	-	-	-	-	-	177	-	-	177	-	177
Capitalisation issue	418	(418)	-	-	-	-	-	-	-	-	-	-	-
Shares issued under Staff Shares Option Schemes	5	36	-	-	-	-	-	-	-	-	41	-	41
Equity settled share-based transaction	-	-	71	-	-	-	-	-	-	-	71	-	71
Transfer	-	3	(26)	-	-	(6)	-	55	285	(311)	-	-	-
Dividends declared or approved during the year	-	-	-	-	-	-	-	-	-	(600)	(600)	(55)	(655)
Sale of interests in businesses to minority interests investors	-	-	-	-	-	-	-	-	-	-	-	132	132
Purchase of interests in businesses from minority interests investors	-	-	-	-	-	-	-	-	-	-	-	(10)	(10)
Hybrid Tier 1 note issue	-	-	-	-	-	-	-	-	-	-	-	3,877	3,877
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	-	2	2
Total comprehensive income for the year	-	-	-	163	514	71	-	-	17	2,565	3,330	73	3,403
At 31 <sup>st</sup> December, 2009	4,623	4,526	170	1,169	286	928	86	14,866	1,518	6,993	35,165	4,358	39,523
As 1 <sup>st</sup> January, 2008	3,936	1,118	68	650	475	866	86	14,004	22	8,874	30,099	347	30,446
Changes in equity													
Shares issued in lieu of dividend	38	(38)	-	-	-	-	-	597	-	-	597	-	597
Subscription of new shares	197	3,745	-	-	-	-	-	-	-	-	3,942	-	3,942
Shares issued under Staff Shares Option Schemes	12	88	-	-	-	-	-	-	-	-	100	-	100
Equity settled share-based transaction	-	-	66	-	-	-	-	-	-	-	66	-	66
Transfer	-	9	(9)	-	-	(15)	-	33	1,216	(1,234)	-	-	-
Dividends declared or approved during the year	-	-	-	-	-	-	-	-	-	(2,340)	(2,340)	(7)	(2,347)
Purchase of interests in businesses from minority interests investors	-	-	-	-	-	-	-	-	-	-	-	(64)	(64)
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	-	(2)	(2)
Total comprehensive income/(expense) for the year	-	-	-	356	(703)	12	-	-	(22)	39	(318)	65	(253)
At 31 <sup>st</sup> December, 2008	4,183	4,922	125	1,006	(228)	863	86	14,634	1,216	5,339	32,146	339	32,485

## 5. Consolidated Cash Flow Statement

	2009 HK\$ Mn	2008 HK\$ Mn
<b>OPERATING ACTIVITIES</b>		
Profit for the year before taxation	3,496	8
Adjustments for:		
Charge for impairment losses on loans and advances	1,105	558
Charge for impairment allowances on held-to-maturity investments, available-for-sale financial assets and associates	23	396
Share of profits less losses of associates	(264)	(53)
Net loss/(profit) on sale of held-to-maturity investments	12	(25)
Net profit on sale of available-for-sale financial assets	(102)	(197)
Net loss on sale of subsidiaries, associates and equities	-	8
Net profit on sale of fixed assets	(16)	(178)
Interest expense on loan capital, certificates of deposit and bonds issued	641	1,014
Depreciation on fixed assets	512	437
Charge for/(Write back of) impairment loss on bank premises	13	(6)
Dividend income from available-for-sale financial assets	(46)	(50)
Amortisation of intangible assets	13	3
Amortisation of premium/discount on certificates of deposit and loan capital issued	68	78
Revaluation losses/(gains) on certificates of deposit and loan capital issued	1,236	(2,624)
Valuation (gains)/losses on investment properties	(206)	168
Equity-settled share-based payment expenses	71	66
<b>OPERATING PROFIT/(LOSS) BEFORE CHANGES IN WORKING CAPITAL</b>	<b>6,556</b>	<b>(397)</b>
(Increase)/decrease in operating assets:		
Cash and balances with banks with original maturity beyond three months	(2,405)	(4,397)
Placements with banks and other financial institutions with original maturity beyond three months	(3,875)	(18,823)
Trade bills	(683)	(352)
Trading assets	(2,617)	1,410
Financial assets designated at fair value through profit or loss	(6,262)	4,525
Advances to customers	(18,095)	(12,366)
Advances to banks and other financial institutions	172	1,158
Held-to-maturity debt securities	(2,056)	5,863
Available-for-sale securities	(11,489)	(6,000)
Other accounts and accrued interest	(1,219)	(1,323)
Increase/(decrease) in operating liabilities:		
Deposits and balances of banks and other financial institutions	(15,159)	(12,015)
Deposits from customers	18,726	39,616
Trading liabilities	(1,391)	474
Other accounts and provisions	6,328	1,273
Exchange adjustments	(114)	362
<b>NET CASH OUTFLOW FROM OPERATIONS</b>	<b>(33,583)</b>	<b>(992)</b>
Income tax paid		
Hong Kong profits tax paid	(53)	(143)
Overseas profits tax paid	(527)	(383)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(34,163)</b>	<b>(1,518)</b>

	2009 HK\$ Mn	2008 HK\$ Mn
<b>INVESTING ACTIVITIES</b>		
Dividends received from associates	190	163
Dividends received from equity securities	46	50
Purchase of equity securities	(851)	(444)
Proceeds from sale of equity securities	483	512
Purchase of intangible assets	(1,380)	(6)
Purchase of fixed assets	(2,561)	(2,557)
Purchase of investment properties	-	(291)
Proceeds from disposal of fixed assets	50	213
Disposal/(Purchase) of shareholding in associates	36	(18)
Proceeds from disposal of associates	-	51
Purchase of subsidiaries	(43)	(21)
Proceeds from sale of interest in a subsidiary	1	-
Sale of interests in business to minority interest investors	132	-
Purchase of interests in business from minority interest investors	(10)	(64)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(3,907)</b>	<b>(2,412)</b>
<b>FINANCING ACTIVITIES</b>		
Ordinary dividends paid	(427)	(1,750)
Distribution to Hybrid Tier 1 issue holders	(51)	-
Issue of ordinary share capital	41	100
Issue of Hybrid Tier 1 note	3,877	-
Subscription for new shares	-	3,942
Issue of certificates of deposit	594	4,656
Issue of debt securities issued	4,334	-
Redemption of certificates of deposit issued	(3,260)	(11,434)
Interest paid on loan capital	(535)	(708)
Interest paid on certificates of deposit issued	(79)	(488)
<b>NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>4,494</b>	<b>(5,682)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(33,576)</b>	<b>(9,612)</b>
<b>CASH AND CASH EQUIVALENTS AT 1<sup>ST</sup> JANUARY</b>	<b>94,106</b>	<b>103,718</b>
<b>CASH AND CASH EQUIVALENTS AT 31<sup>ST</sup> DECEMBER</b>	<b>60,530</b>	<b>94,106</b>
<b>Cash flows from operating activities included:</b>		
Interest received	12,671	17,514
Interest paid	6,238	10,305
Dividend received	78	93

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, 2009 but there is no material change as compared to those accounts. The statutory accounts for the year ended 31<sup>st</sup> December, 2009 will be available from the website of The Stock Exchange of Hong Kong Limited.
- (b) The provision for Hong Kong Profits Tax for 2009 is calculated at 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.
- (c) (i) The calculation of basic earnings per share is based on earnings of HK\$2,514 million (2008: HK\$39 million) after the distribution of HK\$51 million to Hybrid Tier 1 issue holders (2008: Nil) and on the weighted average of 1,843 million (2008: 1,833 million after adjusting for the bonus issue in 2009) ordinary shares outstanding during the year.
- (ii) The calculation of diluted earnings per share is based on earnings of HK\$2,514 million (2008: HK\$39 million) after the distribution of HK\$51 million to Hybrid Tier 1 issue holders (2008: Nil) and on 1,844 million (2008: 1,837 million after adjusting for the bonus issue in 2009) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

## 6. Dividends

	<u>2009</u> HK\$ Mn	<u>2008</u> HK\$ Mn	<u>Variance</u> %
Interim dividend declared and paid of HK\$0.28 per share (2008: HK\$0.23 per share or HK\$0.21 per share after adjusting for the bonus issue in 2009)	516	384	+ 34.2
Final dividend paid in respect of the previous financial year on shares issued under the share option schemes subsequent to the balance sheet date and before the close of the Register of Members of the Bank, of HK\$0.02 per share (2008: HK\$1.18 per share or HK\$1.07 per share after adjusting for the bonus issue in 2009)	-	98	- 100.0
Final dividend proposed after the balance sheet date of HK\$0.48 per share (2008: HK\$0.02 per share or HK\$0.02 per share after adjusting for the bonus issue in 2009)	968	33	+ 2,792.0
	<u>1,484</u>	<u>515</u>	+ 187.8

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

## 7. Interest Income

	<u>2009</u> HK\$ Mn	<u>2008</u> HK\$ Mn	<u>Variance</u> %
Listed securities classified as held-to-maturity or available-for-sale	264	261	+ 1.1
Trading assets			
- listed	13	2	+ 638.6
- unlisted	28	8	+ 264.3
Interest rate swaps	959	917	+ 4.5
Financial assets designated at fair value through profit or loss			
- listed	206	128	+ 61.3
- unlisted	81	310	- 73.9
Loans, deposits with banks and financial institutions, trade bills, and other unlisted securities that are not at fair value through profit or loss	10,570	15,839	- 33.3
Total interest income	<u>12,121</u>	<u>17,465</u>	- 30.6

Included above is interest income accrued on impaired financial assets of HK\$79 million (2008: HK\$73 million) for the year ended 31<sup>st</sup> December, 2009.

## 8. Interest Expense

	<u>2009</u> HK\$ Mn	<u>2008</u> HK\$ Mn	<u>Variance</u> %
Customer deposits, deposits of banks and other financial institutions and certificates of deposit issued which are stated at amortised cost	3,650	8,696	- 58.0
Debt securities issued	61	-	-
Subordinated notes carried at amortised cost	68	184	- 62.9
Interest rate swaps	1,015	1,062	- 4.4
Financial instruments designated at fair value through profit or loss	566	725	- 21.9
Other borrowings	14	5	+ 166.6
Total interest expense	<u>5,374</u>	<u>10,672</u>	- 49.6



## 9. Fee and Commission Income

Fee and commission income arises from the following services:

	2009	2008	Variance	
	HK\$ Mn	HK\$ Mn		%
Corporate services	806	818	-	1.5
Credit cards	554	462	+	19.9
Loans, overdrafts and guarantees	444	382	+	16.3
Securities and brokerage	320	255	+	25.4
Other retail banking services	193	187	+	3.4
Trade finance	141	160	-	11.7
Trust and other fiduciary activities	79	102	-	22.4
Others	262	252	+	4.1
Total fee and commission income	<u>2,799</u>	<u>2,618</u>	+	6.9

of which:

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

	2,214	2,134	+	3.7
Fee income	<u>2,680</u>	<u>2,528</u>	+	6.0
Fee expenses	<u>(466)</u>	<u>(394)</u>	+	18.3

## 10. Net Trading Profits/(Losses)

	2009	2008	Variance	
	HK\$ Mn	HK\$ Mn		%
Profit on dealing in foreign currencies	140	316	-	55.4
Profit/(Loss) on trading securities	616	(618)	+	199.6
Net gain/(loss) on derivatives	153	(1,032)	+	114.9
Loss on other dealing activities	-	(1)	-	90.4
Dividend income from listed trading securities	32	43	-	26.7
Total net trading profits/(losses)	<u>941</u>	<u>(1,292)</u>	+	172.9

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

	2009	2008	Variance	
	HK\$ Mn	HK\$ Mn		%
Revaluation and disposal loss on Collateralised Debt Obligations	-	(3,549)	-	100.0
Revaluation (loss)/gain on debts issued	(1,236)	2,624	-	147.1
Net (loss)/profit on sale of other financial assets designated at fair value through profit or loss	(42)	3	-	1,736.9
Revaluation gain/(loss) on other financial assets designated at fair value through profit or loss	1,011	(690)	+	246.5
Total net result from financial instruments designated at fair value through profit or loss	<u>(267)</u>	<u>(1,612)</u>	-	83.4

## 12. Other Operating Income

	2009	2008	Variance	
	HK\$ Mn	HK\$ Mn		%
Dividend income from available-for-sale financial assets				
- listed	21	20	+	7.0
- unlisted	25	30	-	16.8
Rental from safe deposit boxes	82	87	-	5.4
Net revenue from insurance activities	180	99	+	81.3
Rental income on properties	92	90	+	2.7
Others	105	97	+	7.8
Total other operating income	<u>505</u>	<u>423</u>	+	19.5

## 13. Operating Expenses

	2009	2008	Variance	
	HK\$ Mn	HK\$ Mn		%
Contributions to defined contribution plan	193	225	-	13.8
Equity-settled share-based payment expenses	71	66	+	6.5
Salaries and other staff costs	2,905	2,689	+	8.1
Total staff costs	<u>3,169</u>	<u>2,980</u>	+	6.4
Premises and equipment expenses excluding depreciation				
- Rental of premises	458	378	+	21.1
- Maintenance, repairs and others	447	445	+	0.4
Total premises and equipment expenses excluding depreciation	<u>905</u>	<u>823</u>	+	9.9
Depreciation on fixed assets	<u>512</u>	<u>437</u>	+	17.2
Amortisation of intangible assets	<u>13</u>	<u>3</u>	+	337.9
Other operating expenses				
- Stamp duty, overseas and PRC* business taxes, and value added taxes	304	373	-	18.7
- Communications, stationery and printing	272	274	-	0.7
- Legal and professional fees	190	193	-	1.5
- Advertising expenses	179	287	-	37.9
- Business promotions and business travel	114	97	+	18.1
- Card related expenses	91	72	+	26.6
- Insurance expenses	46	43	+	7.3
- Donations	13	9	+	53.9
- Audit fee	9	8	+	6.1
- Administration expenses of corporate services	8	7	+	17.3
- Membership fees	8	7	+	11.6
- Bank charges	6	7	-	9.0
- Bank licence	4	4	-	1.2
- Others	286	155	+	84.4
Total other operating expenses	<u>1,530</u>	<u>1,536</u>	-	0.4
Total operating expenses	<u>6,129</u>	<u>5,779</u>	+	6.1

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

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

	2009	2008	Variance	
	HK\$ Mn	HK\$ Mn		%
Net revaluation gain transferred from reserves	29	115	-	74.8
Profit arising in current year	73	82	-	11.0
	<u>102</u>	<u>197</u>	-	48.4

#### 15. Trading Assets

	2009	2008	Variance	
	HK\$ Mn	HK\$ Mn		%
Treasury bills (including Exchange Fund Bills)	34	400	-	91.6
Debt securities	3,090	126	+	2,361.9
Equity securities	1,429	989	+	44.5
Investment funds	201	188	+	6.8
Trading securities	4,754	1,703	+	179.2
Positive fair values of derivatives	968	1,734	-	44.1
	<u>5,722</u>	<u>3,437</u>	+	66.5
Issued by:				
Central government and central banks	1,857	400	+	364.2
Public sector entities	299	13	+	2,143.6
Banks and other financial institutions	1,093	443	+	147.1
Corporate entities	1,492	840	+	77.5
Other entities	13	7	+	100.0
	<u>4,754</u>	<u>1,703</u>	+	179.2
Analysed by place of listing:				
Listed in Hong Kong	1,484	825	+	79.8
Listed outside Hong Kong	574	294	+	95.7
	<u>2,058</u>	<u>1,119</u>	+	84.0
Unlisted	2,696	584	+	361.5
	<u>4,754</u>	<u>1,703</u>	+	179.2

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

	2009	2008	Variance
	HK\$ Mn	HK\$ Mn	%
Debt securities	10,043	4,130	+ 143.2
Equity securities	349	-	-
	<u>10,392</u>	<u>4,130</u>	+ 151.6
Issued by:			
Central government and central banks	235	-	-
Public sector entities	177	142	+ 24.6
Banks and other financial institutions	4,338	1,642	+ 164.2
Corporate entities	5,642	2,346	+ 140.5
	<u>10,392</u>	<u>4,130</u>	+ 151.6
Analysed by place of listing:			
Listed in Hong Kong	2,946	1,325	+ 122.4
Listed outside Hong Kong	4,003	1,178	+ 240.0
	<u>6,949</u>	<u>2,503</u>	+ 177.7
Unlisted	3,443	1,627	+ 111.6
	<u>10,392</u>	<u>4,130</u>	+ 151.6

## 17. Advances to Customers and Other Accounts

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

	2009	2008	Variance
	HK\$ Mn	HK\$ Mn	%
(i) Advances to customers	247,654	230,339	+ 7.5
Less: Impairment allowances			
- Individual	(534)	(523)	+ 2.1
- Collective	(811)	(521)	+ 55.7
	<u>246,309</u>	<u>229,295</u>	+ 7.4
(ii) Other accounts			
Advances to banks and other financial institutions	678	850	- 20.2
Notes and bonds	65	129	- 49.6
Certificates of deposit held	39	39	+ 0.1
Accrued interest	1,313	1,863	- 29.5
Bankers acceptances	7,976	2,989	+ 166.8
Other accounts	5,463	8,592	- 36.4
	<u>15,534</u>	<u>14,462</u>	+ 7.4
Less: Impairment allowances			
- Individual	(31)	(23)	+ 31.8
- Collective	(9)	(9)	+ 5.6
	<u>15,494</u>	<u>14,430</u>	+ 7.4
	<u>261,803</u>	<u>243,725</u>	+ 7.4

(b) Advances to customers – by industry sectors

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

	2009		2008		Variance	
	Gross advances HK\$ Mn	% of secured advances %	Gross advances HK\$ Mn	% of secured advances %		
Loans for use in Hong Kong						
Industrial, commercial and financial						
- Property development	9,411	73.43	8,855	61.25	+	6.3
- Property investment	29,766	91.11	27,431	86.88	+	8.5
- Financial concerns	2,699	75.10	2,542	69.94	+	6.2
- Stockbrokers	1,190	50.35	550	99.75	+	116.4
- Wholesale and retail trade	3,265	68.46	2,405	64.60	+	35.8
- Manufacturing	2,177	57.94	2,055	52.54	+	5.9
- Transport and transport equipment	3,794	79.39	3,642	74.80	+	4.2
- Recreational activities	45	47.90	285	91.11	-	84.2
- Information technology	8	38.02	4	49.13	+	91.8
- Others	13,006	77.87	9,954	71.52	+	30.7
- Sub-total	<u>65,361</u>	<u>81.57</u>	<u>57,723</u>	<u>76.78</u>	+	<u>13.2</u>
Individuals						
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,529	100.00	1,318	100.00	+	16.0
- Loans for the purchase of other residential properties	25,220	99.87	24,297	99.74	+	3.8
- Credit card advances	2,675	0.00	2,997	0.00	-	10.7
- Others	8,839	68.17	6,553	74.35	+	34.9
- Sub-total	<u>38,263</u>	<u>85.57</u>	<u>35,165</u>	<u>86.52</u>	+	<u>8.8</u>
Total loans for use in Hong Kong	103,624	83.05	92,888	80.47	+	11.6
Trade finance	2,652	53.27	2,905	59.03	-	8.7
Loans for use outside Hong Kong *	<u>141,378</u>	<u>75.75</u>	<u>134,546</u>	<u>76.56</u>	+	<u>5.1</u>
Total advances to customers	<u>247,654</u>	<u>78.56</u>	<u>230,339</u>	<u>77.91</u>	+	<u>7.5</u>

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

	2009		2008		Variance	
	Gross advances HK\$ Mn	% of secured advances %	Gross advances HK\$ Mn	% of secured advances %		
Property development	14,156	72.70	14,351	78.64	-	1.4
Property investment	22,441	88.36	24,215	87.95	-	7.3
Wholesale and retail trade	18,574	95.28	19,021	88.93	-	2.4
Manufacturing	7,299	48.78	9,547	63.58	-	23.5
Others	41,180	69.34	31,906	69.99	+	29.1
	<u>103,650</u>	<u>77.12</u>	<u>99,040</u>	<u>78.66</u>	+	<u>4.7</u>

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:

	2009	2008	Variance	
	HK\$ Mn	HK\$ Mn		%
(i) Property development				
a. Individually impaired loans	805	207	+	288.5
b. Individual impairment allowance	50	8	+	495.9
c. Collective impairment allowance	83	36	+	129.9
d. Provision charged to income statement				
- individual impairment loss	324	2	+	14,335.8
- collective impairment loss	59	12	+	403.2
e. Written off	272	84	+	223.1
(ii) Property investment				
a. Individually impaired loans	334	145	+	130.1
b. Individual impairment allowance	25	29	-	13.6
c. Collective impairment allowance	193	96	+	102.1
d. Provision charged to income statement				
- individual impairment loss	56	29	+	94.1
- collective impairment loss	111	24	+	360.0
e. Written off	52	-	+	100,947.1
(iii) Loans for purchase of residential properties				
a. Individually impaired loans	137	117	+	17.0
b. Individual impairment allowance	-	2	-	86.2
c. Collective impairment allowance	32	30	+	6.2
d. Provision charged to income statement				
- individual impairment loss	1	5	-	76.6
- collective impairment loss	23	6	+	300.3
e. Written off	1	3	-	77.5
(iv) Wholesale and retail trade				
a. Individually impaired loans	327	222	+	47.7
b. Individual impairment allowance	162	129	+	25.6
c. Collective impairment allowance	56	48	+	17.4
d. Provision charged to income statement				
- individual impairment loss	185	133	+	39.1
- collective impairment loss	18	21	-	16.0
e. Written off	131	4	+	2,933.4

(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.

	2009				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	121,538	217	407	103	299
People's Republic of China	93,084	177	373	34	86
Other Asian Countries	10,103	213	382	247	178
Others	22,929	284	1,286	150	248
<b>Total</b>	<b>247,654</b>	<b>891</b>	<b>2,448</b>	<b>534</b>	<b>811</b>

% of total advances to customers

0.99%

Market value of security held against impaired advances to customers

4,839

	2008				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	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

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, 2009 and 31<sup>st</sup> December, 2008; nor were there any individual impairment allowances made for them on these two dates.

## 18. Available-for-Sale Financial Assets

	2009 HK\$ Mn	2008 HK\$ Mn	Variance %
Treasury bills (including Exchange Fund Bills)	5,425	10,391	- 47.8
Certificates of deposit held	972	762	+ 27.5
Debt securities	22,599	6,398	+ 253.2
Equity securities	1,810	899	+ 101.4
Investment funds	77	110	- 29.7
	<u>30,883</u>	<u>18,560</u>	+ 66.4
Issued by:			
Central governments and central banks	12,787	10,419	+ 22.7
Public sector entities	236	231	+ 1.9
Banks and other financial institutions	14,199	5,773	+ 146.0
Corporate entities	3,584	2,027	+ 76.8
Other entities	77	110	- 29.8
	<u>30,883</u>	<u>18,560</u>	+ 66.4
Analysed by place of listing:			
Listed in Hong Kong	1,957	397	+ 393.0
Listed outside Hong Kong	5,512	9,329	- 40.9
	<u>7,469</u>	<u>9,726</u>	- 23.2
Unlisted	23,414	8,834	+ 165.1
	<u>30,883</u>	<u>18,560</u>	+ 66.4

## 19. Held-to-Maturity Investments

	2009 HK\$ Mn	2008 HK\$ Mn	Variance %
Treasury bills (including Exchange Fund Bills)	189	180	+ 4.8
Certificates of deposit held	2,245	1,717	+ 30.8
Debt securities	4,843	3,216	+ 50.6
	<u>7,277</u>	<u>5,113</u>	+ 42.3
Less: Impairment allowances	(38)	(107)	- 64.1
	<u>7,239</u>	<u>5,006</u>	+ 44.6
Issued by:			
Central governments and central banks	1,510	243	+ 521.6
Public sector entities	621	318	+ 95.1
Banks and other financial institutions	4,328	3,344	+ 29.4
Corporate entities	780	1,101	- 29.1
	<u>7,239</u>	<u>5,006</u>	+ 44.6
Analysed by place of listing:			
Listed in Hong Kong	952	287	+ 231.2
Listed outside Hong Kong	2,984	1,863	+ 60.2
	<u>3,936</u>	<u>2,150</u>	+ 83.1
Unlisted	3,303	2,856	+ 15.7
	<u>7,239</u>	<u>5,006</u>	+ 44.6
Fair value:			
Listed securities	3,998	2,028	+ 97.2
Unlisted securities	3,320	2,870	+ 15.7
	<u>7,318</u>	<u>4,898</u>	+ 49.4



## 20. Segment Reporting

The Group manages its businesses by divisions, which are organized 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 most senior management for the purposes of resource allocation and performance assessment, the Group has presented the following seven reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

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

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

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

China operations include all branches and subsidiaries in China, except those subsidiaries carrying out corporate services and associates operated in China.

Overseas operations include overseas branches and subsidiaries, except those subsidiaries carrying out corporate services and associates operated in overseas.

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

Other businesses include insurance business, property-related business, supporting units of Hong Kong operations, investment properties, bank premises, the net results of associates and other subsidiaries in Hong Kong.

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

Segment assets include all tangible except for properties, 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 banking activities of the individual segments.

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

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

	Hong Kong banking operations							Total reportable segments HK\$ Mn	Others HK\$ Mn	Inter-segment elimination HK\$ Mn	Total HK\$ Mn
	Personal banking	Corporate banking	Treasury markets	Wealth management	China operations	Overseas operations	Corporate services				
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn				
Net interest income/(expense)	1,972	763	377	147	2,974	731	1	6,965	(337)	119	6,747
Non-interest income/(expense)	463	647	(247)	195	498	346	816	2,718	1,573	(850)	3,441
Operating income	2,435	1,410	130	342	3,472	1,077	817	9,683	1,236	(731)	10,188
Operating expenses	(1,341)	(114)	(129)	(107)	(1,997)	(514)	(512)	(4,714)	(1,877)	462	(6,129)
Operating profit/(loss) before impairment losses	1,094	1,296	1	235	1,475	563	305	4,969	(641)	(269)	4,059
(Charge for)/Write back of impairment losses on loans and advances and other accounts	(70)	(46)	(3)	(12)	21	(977)	(6)	(1,093)	(12)	-	(1,105)
Impairment losses on available-for-sale financial assets and held-to-maturity investments	-	-	(9)	-	-	-	-	(9)	(14)	-	(23)
Impairment losses on bank premises	-	-	-	-	-	-	-	-	(13)	-	(13)
Operating profit/(loss) after impairment losses	1,024	1,250	(11)	223	1,496	(414)	299	3,867	(680)	(269)	2,918
Profit/(Loss) on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments, loans and receivable and subsidiaries/associates	(3)	-	16	-	22	1	-	36	73	(1)	108
Valuation gains/(losses) on investment properties	-	-	-	-	7	(3)	-	4	235	(33)	206
Share of profits less losses of associates	-	-	-	-	-	-	-	-	264	-	264
Profit/(Loss) before taxation	1,021	1,250	5	223	1,525	(416)	299	3,907	(108)	(303)	3,496
Depreciation for the year	(70)	(1)	(3)	(2)	(189)	(29)	(17)	(311)	(198)	(3)	(512)
Segment assets	44,005	66,998	132,107	7,359	154,030	50,764	4,144	459,407	19,395	(47,335)	431,467
Investments in associates	-	-	-	-	-	-	-	-	2,615	-	2,615
Total assets	44,005	66,998	132,107	7,359	154,030	50,764	4,144	459,407	22,010	(47,335)	434,082
Total liabilities	208,366	582	24,824	14,719	138,531	40,873	1,645	429,540	6,821	(41,802)	394,559
Capital expenditure incurred during the year	54	-	4	1	3,182	624	32	3,897	66	-	3,963

2008 (restated)

	Hong Kong banking operations							Total reportable segments HK\$ Mn	Others HK\$ Mn	Inter-segment elimination HK\$ Mn	Total HK\$ Mn
	Personal banking	Corporate banking	Treasury markets	Wealth management	China operations	Overseas operations	Corporate services				
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn				
Net interest income/(expense)	1,404	571	1,200	15	2,967	722	-	6,879	(154)	68	6,793
Non-interest income/(expense)	539	(487)	(2,206)	237	410	(49)	816	(740)	1,131	(727)	(336)
Operating income/(expense)	1,943	84	(1,006)	252	3,377	673	816	6,139	977	(659)	6,457
Operating expenses	(1,306)	(114)	(74)	(92)	(1,824)	(528)	(504)	(4,442)	(1,756)	419	(5,779)
Operating profit/(loss) before impairment losses	637	(30)	(1,080)	160	1,553	145	312	1,697	(779)	(240)	678
(Charge for)/Write back of impairment losses on loans and advances and other accounts	(74)	(110)	-	(48)	(98)	(211)	(10)	(551)	(13)	6	(558)
Impairment losses on available-for-sale financial assets and held-to-maturity investments	-	-	(264)	-	-	-	-	(264)	(132)	-	(396)
Write back of impairment losses on bank premises	-	-	-	-	-	-	-	-	6	-	6
Operating profit/(loss) after impairment losses	563	(140)	(1,344)	112	1,455	(66)	302	882	(918)	(234)	(270)
Profit/(Loss) on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments, loans and receivable and subsidiaries/associates	-	-	206	-	(1)	181	(1)	385	4	4	393
Valuation gains/(losses) on investment properties	-	-	-	-	(1)	(20)	-	(21)	(181)	34	(168)
Share of profits less losses of associates	-	-	-	-	-	-	-	-	53	-	53
Profit/(Loss) before taxation	563	(140)	(1,138)	112	1,453	95	301	1,246	(1,042)	(196)	8
Depreciation for the year	(64)	(3)	(2)	(3)	(128)	(26)	(17)	(243)	(191)	(3)	(437)
Segment assets	40,869	60,239	143,582	5,656	139,736	40,215	4,056	434,353	18,583	(40,168)	412,768
Investments in associates	-	-	-	-	-	-	-	-	2,486	-	2,486
Total assets	40,869	60,239	143,582	5,656	139,736	40,215	4,056	434,353	21,069	(40,168)	415,254
Total liabilities	213,785	561	21,014	14,723	128,728	35,552	1,653	416,016	5,355	(38,602)	382,769
Capital expenditure incurred during the year	126	-	7	5	2,028	47	72	2,285	330	-	2,615

## 21. Off-balance Sheet Exposures

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

	2009 HK\$ Mn	2008 HK\$ Mn	Variance %
Contractual amounts of contingent liabilities and commitments			
- Direct credit substitutes	7,341	7,272	+ 1.0
- Transaction-related contingencies	1,293	1,771	- 27.0
- Trade-related contingencies	1,331	1,045	+ 27.3
- Commitments that are unconditionally cancellable without prior notice	41,555	41,692	- 0.3
- Other commitments with an original maturity			
- up to 1 year	21,606	5,651	+ 282.3
- over 1 year	14,112	18,737	- 24.7
Total	<u>87,238</u>	<u>76,168</u>	+ 14.5
Credit risk weighted amounts	<u>27,305</u>	<u>20,642</u>	+ 32.3
Fair value			
Assets			
Exchange rate contracts	317	488	- 34.9
Interest rate contracts	587	1,012	- 42.0
Options purchased			
- exchange rate contracts	9	3	+ 208.4
- equity contracts	55	231	- 76.2
	<u>968</u>	<u>1,734</u>	- 44.1
Liabilities			
Exchange rate contracts	139	505	- 72.5
Interest rate contracts	1,279	1,928	- 33.6
Options purchased			
- exchange rate contracts	9	5	+ 92.2
- equity contracts	22	78	- 72.7
	<u>1,449</u>	<u>2,516</u>	- 42.4
Notional amounts of derivatives			
Exchange rate contracts	43,809	40,652	+ 7.8
Interest rate contracts	70,757	44,724	+ 58.2
Equity contracts	3,051	3,186	- 4.3
	<u>117,617</u>	<u>88,562</u>	+ 32.8
Credit risk weighted amounts			
Exchange rate contracts	567	391	+ 45.1
Interest rate contracts	350	225	+ 55.3
Equity contracts	90	181	- 50.3
Debt security & other commodity	6	22	- 71.5
	<u>1,013</u>	<u>819</u>	+ 23.7

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.

## 22. 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.

	2009			Total
	HK\$ Mn			
	USD	CNY	Others	
Spot assets	82,024	121,752	55,280	259,056
Spot liabilities	(79,661)	(116,345)	(55,086)	(251,092)
Forward purchases	59,917	27,419	11,016	98,352
Forward sales	(57,946)	(27,850)	(8,726)	(94,522)
Net options position	(45)	-	34	(11)
Net long position	<u>4,289</u>	<u>4,976</u>	<u>2,518</u>	<u>11,783</u>

	2008			Total
	HK\$ Mn			
	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>

	2009			Total
	HK\$ Mn			
	USD	CNY	Others	
Net structural position	<u>2,432</u>	<u>6,605</u>	<u>1,012</u>	<u>10,049</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>

## 23. Reserves

	2009	2008	Variance	
	HK\$ Mn	HK\$ Mn		%
Share premium	4,526	4,922	-	8.0
General reserve	14,866	14,634	+	1.6
Revaluation reserve on bank premises	928	863	+	7.6
Investment revaluation reserve	286	(228)	+	225.7
Exchange revaluation reserve	1,169	1,006	+	16.1
Other reserves	1,774	1,427	+	24.4
Retained profits*	6,993	5,339	+	31.0
Total	<u>30,542</u>	<u>27,963</u>	+	9.2
Proposed dividends, not provided for	<u>968</u>	<u>33</u>	+	2,792.0

\* 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, 2009, HK\$1,857 million (2008: HK\$1,996 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.

## 24. Non-adjusting post balance sheet events

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 6.

On 30th December, 2009, the Bank entered into a subscription agreement with Negocio de Finanzas e Inversiones I, SLU, a subsidiary of Criteria Caixa Corp., SA and Sumitomo Mitsui Banking Corporation respectively in relation to the subscription as principal of an aggregate of 167,104,200 shares in the share capital of the Bank at HK\$30.60 per new share subject to regulatory approval. These 167,104,200 shares represent approximately 8.29% of the entire issued share capital of the Bank as enlarged by the subscriptions. The subscription price represents a discount of approximately 2.08% to the closing price of HK\$31.25 per share quoted on the Stock Exchange on 30th December, 2009. Following with a regulatory approval, shares issued and proceeds are received on 14<sup>th</sup> January, 2010.

In June 2009, BEA signed a Sale and Purchase Agreement with the Industrial and Commercial Bank of China Limited ("ICBC") to sell a 70% interest in its banking subsidiary in Canada, The Bank of East Asia (Canada), to ICBC. The transaction closed on 28th January, 2010.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### A. Capital Adequacy Ratio and Capital Base

(a) Capital adequacy ratio	<u>2009</u>	<u>2008</u>
	%	%
Capital adequacy ratio as at 31 <sup>st</sup> December	13.3	13.8
Core capital adequacy ratio as at 31 <sup>st</sup> December	9.4	9.1

Capital ratios at 31<sup>st</sup> December, 2009 and 31<sup>st</sup> December, 2008 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

	<u>2009</u>	<u>2008</u>
	HK\$ Mn	HK\$ Mn
Core capital		
Paid up ordinary share capital	4,623	4,183
Share premium	4,526	4,922
Reserves	17,647	18,308
Profit and loss account	1,553	(71)
Minority interests	3,826	-
Deduct: Goodwill	(1,624)	(1,624)
Net deferred tax assets	(317)	(119)
Other intangible assets	(27)	(29)
	<u>30,207</u>	<u>25,570</u>
Less: Core capital items deductions	<u>(3,672)</u>	<u>(2,749)</u>
Total core capital	<u>26,535</u>	<u>22,821</u>
Eligible supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	916	801
Revaluation reserves for fair value gains on revaluation of holdings of available-for-sale equities and debt securities	63	-
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	424	-
Regulatory reserve for general banking risks	134	156
Collectively assessed impairment allowances	153	42
Surplus provisions	435	1,024
Perpetual subordinated debt	3,743	3,356
Term subordinated debt	8,910	8,899
	<u>14,778</u>	<u>14,278</u>
Less: Supplementary capital items deductions	<u>(3,672)</u>	<u>(2,749)</u>
Total supplementary capital	<u>11,106</u>	<u>11,529</u>
Total capital base	<u><u>37,641</u></u>	<u><u>34,350</u></u>

**B. Liquidity Ratio**

	<u>2009</u>	<u>2008</u>
	%	%
Average liquidity ratio for the year	43.3	38.4

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.

	2009			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	9,717	1,683	37,795	49,195
Asian countries, excluding People's Republic of China	17,241	2,464	12,917	32,622
North America	9,147	382	12,927	22,456
Western Europe	50,624	-	1,490	52,114

  

	2008			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	6,385	1,120	31,888	39,393
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

### D. Non-bank Mainland Exposures

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

<u>Type of counterparties</u>	2009			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Mainland entities	97,002	22,570	119,572	36
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	15,085	2,302	17,387	10
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	7,540	12	7,552	-
<b>Total</b>	<b>119,627</b>	<b>24,884</b>	<b>144,511</b>	<b>46</b>

Type of counterparties	2008			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Mainland entities	92,563	14,764	107,327	60
Companies and individuals outside the Mainland where the credit is granted for use in the 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>

## E. Overdue, Rescheduled and Repossessed Assets

### (a) Overdue and rescheduled advances

	2009		2008	
	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	96	0.1	233	0.1
- 1 year or less but over 6 months	515	0.2	229	0.1
- Over 1 year	280	0.1	171	0.1
	891	0.4	633	0.3
Rescheduled advances to customers	234	0.1	239	0.1
<b>Total overdue and rescheduled advances</b>	<b>1,125</b>	<b>0.5</b>	<b>872</b>	<b>0.4</b>
Secured overdue advances	561	0.2	261	0.1
Unsecured overdue advances	330	0.2	372	0.2
Market value of security held against secured overdue advances	2,168		1,542	
Individual impairment allowance made on loans overdue for more than 3 months	309		231	

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, 2009 and 31<sup>st</sup> December, 2008; nor were there any rescheduled advances to banks and other financial institutions on these two dates.

(b) Other overdue and rescheduled assets

	2009		2008	
	Accrued interest	Other assets*	Accrued interest	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for				
- 6 months or less but over 3 months	-	-	-	3
- 1 year or less but over 6 months	-	-	1	-
- Over 1 year	-	1	-	-
	-	1	1	3
Rescheduled assets	-	-	-	-
Total other overdue and rescheduled assets	-	1	1	3

\* Other assets refer to trade bills and receivables.

(c) Repossessed assets

	2009	2008
	HK\$ Mn	HK\$ Mn
Repossessed land and buildings *	48	57
Repossessed vehicles and equipment	-	1
Total repossessed assets	48	58

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

\* The balance included HK\$5 million (2008: HK\$37 million) relating to properties that were contracted for sale but not yet completed.

## **STATEMENT OF COMPLIANCE**

- (1) In preparing the accounts for 2009, 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, 2009, except for a deviation from Code Provision A.2.1 of the Code which is 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 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.

## **FINAL DIVIDEND**

At the forthcoming Annual General Meeting to be held on Thursday, 22<sup>nd</sup> April, 2010 ("2010 AGM"), the Directors will propose a final dividend of HK\$0.48 per share (2008: HK\$0.02 per share) for the year ended 31<sup>st</sup> December, 2009, which, together with the interim dividend of HK\$0.28 per share paid in October 2009, will constitute a total dividend of HK\$0.76 per share (2008: HK\$0.23 per share<sup>Note 1</sup>) for the full year. The final dividend will be paid on 23<sup>rd</sup> April, 2010 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 Wednesday, 31<sup>st</sup> March, 2010.

Shareholders whose names appear on the Register of Members at the close of business on Wednesday, 31<sup>st</sup> March, 2010, will be entitled to the proposed final dividend.

The Scrip Dividend Scheme is conditional upon the passing of the relevant resolution at the 2010 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. The dividend warrants and the share certificates for the Scrip Dividend Scheme will be sent to shareholders by ordinary mail on or about Friday, 23<sup>rd</sup> April, 2010.

## **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, the Register of Members of the Bank will be closed on Tuesday, 30<sup>th</sup> March, 2010 and Wednesday, 31<sup>st</sup> March, 2010. In order to qualify for the proposed final dividend, all transfer documents should be lodged for registration with Tricor Standard Limited<sup>Note 2</sup> by 4:00 p.m. Monday, 29<sup>th</sup> March, 2010.

- (b) For the purpose of determining shareholders who are entitled to attend and vote at the 2010 AGM, the Register of Members of the Bank will be closed on Wednesday, 21<sup>st</sup> April, 2010 and Thursday, 22<sup>nd</sup> April, 2010. In order to qualify for attending and voting at the 2010 AGM, all transfer documents should be lodged for registration with Tricor Standard Limited<sup>Note 2</sup> by 4:00 p.m. Tuesday, 20<sup>th</sup> April, 2010.

#### **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, 2009.

#### *Notes:*

<sup>1</sup> *For ease of comparison, the stated dividend for the year 2008 has been adjusted downward from HK\$0.25 per share to HK\$0.23 per share to reflect the effect of the bonus issue in celebration of the Bank's 90<sup>th</sup> Anniversary.*

<sup>2</sup> *Address: 26<sup>th</sup> Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.*

## CHAIRMAN'S STATEMENT

For the year 2009, the BEA Group recorded a profit after tax of HK\$2,638 million, representing an increase of HK\$2,534 million, or 2,445.1%, compared to the HK\$104 million earned in 2008. Basic earnings per share reached HK\$1.36. Return on average assets and return on average equity were 0.6% and 7.7%, respectively.

As at 31<sup>st</sup> December, 2009, total consolidated assets stood at HK\$434,082 million, an increase of HK\$18,828 million over the position at the end of 2008. Advances to customers stood at HK\$247,654 million. Customer deposits were HK\$342,528 million, while certificates of deposit and subordinated debt issued stood at HK\$15,171 million. Total equity increased by 21.7% to HK\$39,523 million.

At the forthcoming Annual General Meeting to be held on Thursday, 22<sup>nd</sup> April, 2010, the Directors will propose a final dividend of HK\$0.48 per share, which, together with the interim dividend of HK\$0.28 per share paid in October 2009, will constitute a total dividend of HK\$0.76 per share for the full year. This represents an increase of 230.4% over the total dividend of HK\$0.23<sup>Note</sup> per share for the year 2008.

The global deleveraging that followed the dramatic events of September 2008 resulted in weak demand for local banking services in the early part of 2009. After bottoming-out in March and spurred by the unprecedented support measures introduced by governments worldwide, the global economy returned to growth in the second half of the year. However, with most advanced economies suffering from high government debt and weak domestic demand, the outlook will remain challenging in 2010.

Against this backdrop, China will continue to be the leading engine of growth for the global economy. Hong Kong should benefit from the Mainland's strength and the emerging recovery elsewhere in the world, providing new business opportunities for local companies and steadily improving business prospects for the Bank.

Going forward, BEA will maintain its focus on building a strong franchise in Greater China. The Bank of East Asia (China) Limited ("BEA China") has established one of the strongest branch networks among foreign banks operating on the Mainland, and is ideally placed to benefit from closer cross-boundary financial ties between Hong Kong and the Mainland. To further strengthen its network, BEA China will take advantage of newly introduced measures that permit Hong Kong-based banks to establish "cross-location" sub-branches in Guangdong province. These measures will allow BEA China to expand to all major municipalities within the province.

In Hong Kong, the Bank will continue to focus on a full range of banking business and products for large corporate customers, Small and Medium Enterprises and retail customers. The Bank will also further broaden its fee-based services in order to generate new revenue streams. Efforts to maximise cross-selling opportunities via the Bank's subsidiaries, including Tricor Group, Blue Cross and BEA Life, will be stepped up. The Bank will also enhance its investment and financial products to further improve sales performance and returns.

In parallel with the above organic growth strategies, the Bank will maintain its ongoing effort to identify and explore the potential for expansion through acquisitions and strategic alliances. In June 2009, the Bank reached an agreement with the Industrial and Commercial Bank of China ("ICBC") to acquire the entire 75% interest in ICEA Finance Holdings Limited formerly held by ICBC, with a view to further reinforcing the Bank's position in the securities broking business. In addition, the Bank completed the acquisition of the former AIG wealth management business in Taiwan, and renamed the company BEA Wealth Management Services (Taiwan) Limited.

BEA entered into a wide-ranging co-operation agreement with la Caixa Group in June 2009 and established a strategic partnership with Hana Bank of South Korea in July 2009. The alliances with la Caixa Group and Hana Bank will enhance the Bank's access to the markets in which its strategic partners operate, and further facilitate the growth of the international business of the Bank.

BEA enters 2010 with a healthy capital position, following the successful launch of the landmark Hybrid Tier 1 Capital Issue in November 2009, and the completion of the share placement to strategic partners Criteria CaixaCorp., S.A. and Sumitomo Mitsui Banking Corporation ("SMBC"), which was announced on 30<sup>th</sup> December, 2009. SMBC and BEA have a longstanding business relationship, and concluded a strategic co-operation agreement in November 2008.

The new management structure implemented on 1<sup>st</sup> April, 2009, has further strengthened the capability of the Bank's various business and operation units by introducing more effective executive leadership and greater accountability. Through this reorganisation, the Bank has reinforced its commitment to improving both the top and bottom lines. At the same time, control functions have been further enhanced through the allocation of additional resources to risk management, corporate governance and information technology.

Mr. Joseph Pang Yuk-wing resigned as a Director of the Bank upon the conclusion of the Annual General Meeting held on 16<sup>th</sup> April, 2009. Mr. Pang served the Bank for over 35 years, and played an instrumental role in the Bank's growth. The Bank has been fortunate to retain Mr. Pang's services upon his retirement, and has appointed him as a Senior Advisor to the Bank.

Dr. Isido Fainé Casas was appointed as a Non-executive Director of the Bank in June, 2009. Dr. Fainé is a highly accomplished business leader. He is the chairman of Criteria CaixaCorp, the largest industrial and financial investment group in Spain, and la Caixa, a leading savings bank in Spain. With Dr. Fainé's wealth of experience and international exposure, I am confident that his wise counsel and guidance to the Board will lead to the further success of the BEA Group.

Your Management is confident that, with a unique market position, focussed strategy and performance-based outlook, BEA is entering a new era of achievement and growth.

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

Hong Kong, 11<sup>th</sup> February, 2010

Note For ease of comparison, the stated dividend for the year 2008 has been adjusted downward from HK\$0.25 per share to HK\$0.23 per share to reflect the effect of the bonus issue in celebration of the Bank's 90th Anniversary.

## EXECUTIVE DIRECTORS' REPORT

### FINANCIAL REVIEW

#### Financial Performance

For the year 2009, the BEA Group recorded a profit after tax of HK\$2,638 million, representing an increase of HK\$2,534 million, or 2,445.1%, compared to the HK\$104 million earned in 2008. Basic earnings per share reached HK\$1.36. Return on average assets and return on average equity were 0.6% and 7.7%, respectively.

Against the persistently low interest rate environment in the wake of the financial tsunami, the Group recorded a slight decrease in net interest income in 2009, earning HK\$6,747 million. Following the disposal or write-down of the Bank's entire collateralised debt obligation ("CDO") portfolio in 2008, coupled with an increase in trading profits in 2009, non-interest income grew by HK\$3,777 million to HK\$3,441 million. Total operating income grew by 57.8% to HK\$10,188 million.

Operating expenses increased by 6.1% compared to 2008, reaching HK\$6,129 million, due to the continuing expansion of the Group's activities. The cost-to-income ratio dropped from 89.5% in 2008 to 60.2% in 2009.

Operating profit before impairment losses was HK\$4,059 million, an increase of HK\$3,381 million, or 498.8%, as compared with 2008.

Impairment losses on loans and advances increased by HK\$547 million, or 98.0%, mainly due to deterioration in overseas credit markets. Impairment losses on available-for-sale financial assets shrank to HK\$14 million. As a result, total impairment losses increased by HK\$193 million, or 20.3%, when compared with last year.

Operating profit after impairment losses was HK\$2,918 million, an increase of HK\$3,188 million, or 1,178.2%, as compared with 2008.

Net profit on disposal of available-for-sale financial assets dropped to HK\$102 million. With the buoyant property market in Hong Kong, the Bank recorded a valuation gain on investment properties of HK\$206 million. This contrasts with a valuation loss of HK\$168 million in 2008. Due to the strong performance of associates, the Group shared after-tax profits from associates of HK\$264 million.

After accounting for income taxes, profit after taxation was HK\$2,638 million, an increase of 2,445.1% compared to the HK\$104 million recorded the previous year. Profit attributable to owners of the parent was HK\$2,565 million, representing an increase of 6,510.0%.

#### Financial Position

Total consolidated assets of the Group stood at HK\$434,082 million at the end of 2009, an increase of 4.5% over the HK\$415,254 million at the end of 2008. Advances to customers increased to HK\$247,654 million, a rise of 7.5%. Total equity increased to HK\$39,523 million, up 21.7%.

Demand deposits and current accounts combined increased by HK\$10,048 million to HK\$46,380 million. The balance of savings accounts increased to HK\$81,711 million, a rise of HK\$35,930 million. The value of time deposits at year-end 2009 stood at HK\$214,437 million, a drop of HK\$27,252 million compared to the balance at the end of 2008. Total customer deposits rose by 5.8% to HK\$342,528 million, while certificates of deposit decreased by 48.8% to HK\$2,812 million. After taking into account certificates of deposit issued, the loan-to-deposit ratio was 71.7% at the end of 2009, 1.8% higher than the 69.9% reported at the end of 2008. Subordinated debt issued stood at HK\$12,359 million.

During 2009, BEA issued HKD fixed rate certificates of deposit with a face value of HK\$300 million and HKD floating rate certificates of deposit with a face value of HK\$270 million. The Bank redeemed a quantity of certificates of deposit amounting to HK\$2,387 million equivalent upon maturity, and repurchased its own certificates of deposit amounting to HK\$465 million equivalent.



At the end of December 2009, the face value of the outstanding debt portfolio was HK\$2,992 million, with a carrying amount equal to HK\$2,812 million.

### Maturity Profile of Debts Issued

As at 31<sup>st</sup> December, 2009

(All expressed in millions of dollars)

	Currency	Total Face Value	Year of Maturity					
			2010	2011	2013	2014	2015	
<b>Floating Rate</b>								
<b>Certificates of Deposit</b>								
Issued in 2008	HKD	100	100					
Issued in 2009	HKD	270	120	150				
Issued in 2008	USD	30		30				
<b>Fixed Rate</b>								
<b>Certificates of Deposit</b>								
Issued in 2008	HKD	500	500					
Issued in 2009	HKD	300	300					
Issued in 2008	USD	65	50	15				
<b>Zero Coupon</b>								
<b>Certificates of Deposit</b>								
Issued in 2007	USD	140			40	50	50	
<b>Total Debts issued in HKD equivalent</b>			2,992	1,407	499	310	388	388

### Maturity Profile of Loan Capital

As at 31<sup>st</sup> December, 2009

(All expressed in millions of dollars)

		Currency	Total Face Value	Year of Maturity			
				2015	2017	Perpetual	
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>				12,667	4,265	4,653	3,749

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 that 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.

The risk management mechanisms are built around a centralised framework and incorporate specialised risk management committees, namely: Credit Committee; Asset and 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, ongoing 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 Bank policies, and legal and regulatory requirements in Hong Kong, China and overseas.

## **OPERATIONS REVIEW**

### **Hong Kong Operations**

#### ***Corporate Branding***

To enhance its corporate brand image, BEA unveiled a new brand platform in May 2009, based on the concept "Extending Your Reach". The new platform reflects BEA's commitment to helping people realise their dreams by enabling them to manage their finances more effectively. Graphically, the platform is represented by a soaring arc in BEA's corporate colours, which reinforces the dynamic and progressive image that is central to the Bank's service commitment. BEA introduced the new concept to the market in an advertising campaign and the new positioning was also widely applied to communication materials to further reinforce the Bank's enhanced brand image.

#### ***Recognition***

During the period under review, the Bank received many awards, reflecting its outstanding achievements, including:

- the 10<sup>th</sup> Annual Asia Risk Awards 2009 - "House of the Year, Hong Kong", from *Asia Risk* magazine;
- "Best Bank Bond" in "The Asset Asian Awards 2009" from *The Asset* magazine for the Bank's US\$500 million Hybrid Tier 1 Capital Issue;
- for the second consecutive year, winner of the "Best SME's Partner Award", organised by The Hong Kong Chamber of Small and Medium Business Limited;
- "2008 Top Merchant Sales Volume Acquiring Bank Award - Visa", in the Visa Explorer Award Program;
- second runner-up in the "2008 Highest Growth Rate in Number of Open Cards in Hong Kong - MasterCard"; and
- silver prize for "2008 Highest Card Number Growth (Credit Card) in Hong Kong - China UnionPay".

BEA's subsidiaries, including The Bank of East Asia (China) Limited ("BEA China"), BEA Union Investment Management Limited ("BEA Union Investment"), Blue Cross (Asia-Pacific) Insurance Limited ("Blue Cross") and Credit Gain Finance Company Limited ("Credit Gain"), were also recognised for their achievements. Details of such recognitions are set out in the respective sections below.

#### ***Corporate Banking***

The local corporate loan market exhibited weakness in the first quarter of 2009, as the impact of the financial tsunami reverberated through the economy. Loan demand was mainly driven by refinancing needs. Commercial loan and trade finance business fell at the beginning of the year, as local companies suffered a sharp slowdown in orders from overseas trading partners. The weak first quarter was followed by a rebound from the second quarter onwards.

## Corporate Lending

Bargain-hunters took advantage of the improving local credit environment from the second quarter to pursue investment opportunities, leading to a gradual revival in corporate lending business during the year. As a result, the Bank registered satisfactory growth in corporate loan volume combined with enhanced overall pricing for 2009 as a whole.

In light of the relatively quiet syndicated loan market and the tenuous nature of the economic recovery, BEA is taking a proactive approach to expanding its client base by focussing on high quality local and Mainland enterprises. With its strong Mainland network, BEA is particularly well positioned to serve local and Mainland customers, and meet both their onshore and offshore financing needs.

Share-financing activity rebounded strongly in the second half of the year, as Mainland enterprises took advantage of the surging appetite for China-oriented stocks to list on the Stock Exchange of Hong Kong. BEA acted as a receiving bank for a total of 12 IPO projects in 2009, firmly establishing itself as one of the market leaders in this highly competitive business and further broadening its non-interest income base. For 2010, BEA will continue to develop the IPO receiving bank business, and look to additional business opportunities in pre-IPO financing, targeting Mainland enterprises in particular.

## Commercial Lending and Trade Finance

The Bank actively supported the Hong Kong Government's Special Loan Guarantee Scheme to assist local small and medium sized enterprises, granting more than HK\$2 billion in loans under the Scheme. As a result, BEA recorded a substantial rise in commercial loan business in 2009. The Bank will continue its active participation in the Scheme, which has now been extended to June 2010.

To further complement the Bank's range of commercial products, BEA introduced factoring in the second half of the year. This will provide additional flexibility to customers in managing their business, by improving the efficiency of collection of receivables, enhancing cash flow management and providing protection against buyer default.

In line with the Central Government's recent policy initiatives on settlement of cross-boundary trade in Renminbi, BEA was among the first banks to provide Renminbi one-stop trade settlement services. This new policy applies to enterprises based in Hong Kong and the Mainland, and covers RMB deposit accounts for trade settlement, currency exchange, fund transfers and trade finance. These new services bring greater flexibility and reduce exchange rate risk and trade costs for clients involved in cross-boundary trade with the Mainland.

## Asset Based Finance

Following the acquisition of a sizeable equipment loan portfolio from the market in 2008, BEA focussed on rationalising the portfolio in 2009. Affected by the global financial crisis, equipment loan demand shrank. Notwithstanding the difficult market conditions, BEA expanded its equipment dealership network as well as its marketing team in 2009. This has put the Bank in a position to fully exploit emerging business opportunities as the market turns for the better.

Meanwhile, BEA's Hong Kong commercial vehicle financing portfolio for taxi and public light buses expanded by more than 10% during the year. The quality of the loan portfolio remained satisfactory, with zero loan loss despite fluctuations in the value of taxi and public light bus licences.

## ***Personal Banking***

### Branch Distribution and Services

The Bank's retail marketing initiatives focussed on developing long-term customer relationships, targeting key market segments including tertiary students and professionals.

The Bank's Supreme Account and i-Account services were enhanced in November 2009 with the addition of securities and linked-deposit sub-accounts. With this product enhancement, the Bank now provides comprehensive account services catering for both the banking and investment needs of customers through three distinct all-in-one accounts, namely SupremeGold Account, Supreme Account and i-Account.

Continuing the multi-year Branch Rationalisation Programme, the Bank opened Tai Wo Branch and Cheung Sha Wan Plaza Branch, and closed Lei Tung Estate Branch and Tokwawan Branch during 2009. Tsing Yi Garden Branch was relocated to a more prominent site at Maritime Square and renamed Maritime Square Branch. To further improve service to customers, new SupremeGold Centres were opened at Maritime Square Branch, Tai Wo Branch and King's Road Branch. At the end of December 2009, BEA operated a total of 90 branches and 51 SupremeGold Centres in Hong Kong.

The Bank has implemented the recommendations of the Hong Kong Monetary Authority ("HKMA") on the marketing and selling of investment products. An advanced Secure Voice Recording Solution was introduced in all local branches on 4<sup>th</sup> May, 2009. In addition, a mystery shopper programme was implemented on 1<sup>st</sup> June, 2009 to monitor staff compliance with Bank policies and regulatory rules and guidelines on the sale of investment products to retail customers. The Bank had fully implemented the new guidelines on physical segregation of general banking services and investment services by 2<sup>nd</sup> October, 2009.

### Cyberbanking

The Cyberbanking website was revamped in August 2009 to introduce a more intuitive and user-friendly user interface and to offer a more personalised online banking experience. The revamp of the Corporate Cyberbanking website was in its final stages at the end of the year, with roll out targeted for early 2010.

During the year, Cyberbanking's stock-trading services were extended to all types of all-in-one accounts, namely SupremeGold Account, Supreme Account and i-Account. In addition, Corporate Cyberbanking was enhanced to include Renminbi trade settlement features.

In line with the new security guidelines issued by the HKMA in respect of online transactions, the Bank further strengthened the security features of Cyberbanking and Corporate Cyberbanking in September 2009. The upgrade ensures that the Bank maintains a market-leading standard of security for all online transactions.

By the end of 2009, the number of registered Cyberbanking users and Corporate Cyberbanking users had recorded growth of 9% and 6%, respectively, compared with the end of last year. The Bank plans to further promote Cyberbanking and Corporate Cyberbanking services in order to enrol more users from the existing account holders of the Bank, as well as to drive more banking activities of customers to electronic channels to improve service efficiency.

### Credit Cards

Promotional activities during the year aimed to reinforce the benefits of holding and using BEA credit cards, with particular focus on expanding the Bank's network of dining and entertainment affiliations. In order to build loyalty and to appeal to Private Banking and SupremeGold customers, a new product, BEA World MasterCard, was launched, providing an extra level of service and privilege for this premium customer segment.

In response to increasing travel by local residents to the Mainland, the BEA CUP Dual Currency PLATINUM Credit Card was launched in January 2010. The card supports two settlement currencies, namely Hong Kong dollars and Renminbi. This flexibility translates into greater convenience and savings for cross-boundary travellers.

### Consumer Loans

The Bank reviewed its consumer loan policies during the year in the face of the difficult economic environment in the first half of the year. Implementing stringent control over loan quality, the Bank successfully launched the "Right for You" instalment loan programme, a revised tax loan programme and a new revolving loan programme, thus achieving continued growth in the loan portfolio. The Bank also launched a series of niche marketing programmes with well-known organisations, professional firms and educational institutions, succeeding in recruiting borrowers with a higher level of credit-worthiness.

## Property Loans

The mortgage loan portfolio grew at an encouraging pace in 2009. A variety of mortgage products were introduced, covering both residential and non-residential properties. A series of promotional activities were conducted throughout the year to target different customer segments.

The Fixed Adjustable Rate Mortgage (“FARM”) Programme, launched by the Hong Kong Mortgage Corporation, and the Surplus Home Ownership Scheme (“HOS”) Flats Phase 5, launched by the Hong Kong Housing Authority, both served as good platforms for new business.

In view of the increasingly intense market competition, the Bank will further build on its strong relationships with local business partners, including property developers, solicitors, property agents and mortgage brokers, to provide highly competitive mortgage plans for homebuyers.

## ***Wealth Management***

### Investment Products and Advisory

Anticipating greater demand for conservative asset classes and product diversification, the Bank launched two capital preservation-themed investment funds in 2009, namely the BEA Global Bond Fund and the BEA Union Investment Four Seasons Fund. The former invests in high-grade debt securities with a focus on sovereign issues, while the latter seeks medium-term growth through exposure to a dynamically allocated portfolio of equity and debt securities.

Investor services were enhanced during the year, with the introduction of more fund choices for monthly subscription plans. Further, the Bank completed an upgrade of its financial planning system, offering investors the ability to keep close track of fund investment returns. These initiatives were well received by customers, contributing to a rise of more than 60% in terms of fund assets under custody, when compared with the end of 2008.

With demand impacted by the credit crisis, sales of structured products started off the year relatively slowly. However, with the rebound in stock markets, moderating volatility and narrowing of the credit spread, demand re-emerged during the course of the year. In particular, the transaction volume for currency-linked deposits returned to pre-crisis levels in the fourth quarter.

During 2009, the Bank has been an active participant in discussions with regulators to safeguard the interests of all parties in financial product transactions.

### Private Banking

The regulatory environment for private banking business in Hong Kong has become stricter in the wake of the Lehman Brothers’ bankruptcy, which has in turn increased the cost of doing business. BEA has adapted to the new environment by focussing on customer relationships and encouraging clients to practise asset diversification and investment discipline. In addition, the Bank enhanced its operating systems, in order to achieve more efficient internal operations and offer a more user-oriented service for clients.

Riding on the recovery in global markets and the improving investment sentiment, Private Banking had a better-than-expected year in 2009, with net profit growing by 33% year-on-year. Assets under management grew by 24%, while the number of accounts grew by 15%.

Private Banking continues to draw the majority of its clientele from the Greater China region, but also welcomes clients from elsewhere. Given the growing interest in China-centred investments, the Bank plans to expand the Private Banking team in order to attract a larger clientele from outside the region.

## ***Investment Banking and Services***

### East Asia Securities Company Limited – Securities Cybertrading

East Asia Securities Company Limited (“East Asia Securities”) offers a highly reliable service using proven technology, and continues to improve and expand its brokerage network. The company saw the number of Cybertrading accounts rise by 4% during the year. As of 31<sup>st</sup> December, 2009, more than 60% 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 62% of the number of trades and 46% of the gross transaction value during the period under review.

With a view to further enhancing the Cybertrading Service, East Asia Securities will launch an e-Statement Service in January 2010.

#### East Asia Futures Limited – Futures Cybertrading

On the back of improved local market sentiment and increased demand for derivative products, East Asia Futures Limited (“East Asia Futures”), the wholly-owned futures and options broking arm of the Bank, enjoyed steady growth in trading volume during the year. Nearly 80% of the total trading volume was executed via its user-friendly internet-based trading platform – the Futures Cybertrading System. As of 31<sup>st</sup> December, 2009, more than 74% of East Asia Futures clients had subscribed to Futures Cybertrading.

With a view to adding new services, enlarging the client base and promoting usage of its electronic trading platform, East Asia Futures will implement a software upgrade and launch a new promotional campaign in 2010.

### **China and International Operations**

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

BEA's locally-incorporated subsidiary bank on the Mainland, BEA China, continues to maintain a leading position among locally-incorporated foreign banks in this very important market.

BEA China's pioneering achievements and second-to-none banking services were recognised through a number of awards in 2009, including:

- the “2009 Best Foreign Bank Website” from Hexun.com;
- the “2009 Best SME Services in Asia” in the 4<sup>th</sup> Asian Banks Competitive Rankings held during the 21<sup>st</sup> Century Annual Finance Summit of Asia;
- the “2009 Best Localised Foreign Bank” and the “2009 Best Secured Credit Card” from *Moneyweek*; and
- the “2009 Best Wealth Management Bank” in the 2009 Bank Rating hosted by money.sohu.com.

BEA China adopted a proactive stand in the face of the global financial crisis, focussing on enlarging its deposit base and maintaining stable loan growth. Despite facing many external challenges, BEA China successfully navigated through the difficult period. From the second quarter, facilitated by the favourable monetary and fiscal policies adopted by the Chinese government, BEA China has maintained steady business growth.

Adjusting its policies in the face of the financial upheaval, BEA China took a prudent approach to growing its loan business in 2009. Total loan advances increased by 4.44% in comparison with 2008. BEA China strived to further diversify the industry mix of its loans and has been successful in maintaining impaired loans at a low level.

With the launch of new retail banking products, BEA China saw a significant increase in its personal deposits. Corporate deposits, the Bank's traditional focus, continued to expand. As a result, total deposits increased by 27.72% over 2008.

This focus on deposits will continue in 2010, with plans for a steady flow of new products, additional service channels and an expanding number of cooperation agreements with business partners.

With 78 outlets as of 31<sup>st</sup> January, 2010, BEA and BEA China continue to operate one of the most extensive networks of any foreign bank on the Mainland. Since early 2009, BEA China has added a total of 11 new outlets, including a new branch in Shijiazhuang and the opening of 10 new sub-branches. These include two “cross-location” sub-branches<sup>1</sup> in Foshan and Zhongshan. BEA China is

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<sup>1</sup> Under the new liberalisation measures under Supplement VI to the Mainland and Hong Kong Closer Economic Partnership Arrangement, which came into effect on 1<sup>st</sup> October, 2009, branches of a wholly foreign-funded bank established on the Mainland by a Hong Kong bank can apply to establish “cross-location” sub-branches throughout Guangdong Province. With this new provision, the capital requirement for setting up a sub-branch in Guangdong Province has been reduced significantly.

one of the first locally-incorporated foreign banks to set up “cross-location” sub-branches in Guangdong Province.

In addition, BEA China opened six new 24-hour self-service banking centres in 2009.

BEA China’s service coverage was also greatly expanded through the addition of new Automatic Teller Machines (“ATMs”). BEA China currently operates approximately 350 ATMs, up from 250 at the end of 2008.

BEA China launched Renminbi bonds in Hong Kong in June, becoming the first locally-incorporated foreign bank on the Mainland to issue Renminbi bonds to retail investors in Hong Kong.

The bonds, which bear an annual interest rate of 2.8% and have a tenor of two years, were warmly received by the market. As a result, BEA China fully utilised the RMB4 billion bond issue principal amount approved by the People’s Bank of China and the National Development and Reform Commission of the People’s Republic of China.

In September, BEA China became one of the first foreign banks to be granted domestic settlement bank and domestic agent bank status for cross-boundary Renminbi trade settlement services. Customers of BEA and BEA China can now enjoy greater flexibility, lower exchange rate risk and reduced costs when conducting cross-boundary trade business.

In November, BEA China became the first locally-incorporated foreign bank on the Mainland to establish a charity fund. The new “Shanghai Soong Ching Ling Foundation-BEA Charity Fund” focuses on promoting children’s education in rural areas.

BEA China’s personal banking business continues to grow. BEA China was honoured to be the only foreign bank selected to launch a special-themed credit card celebrating the 60<sup>th</sup> anniversary of the People’s Republic of China. In addition, BEA China launched a co-branded card with Sina.com Leju in 2009.

The second phase of the new Personal Cyberbanking Service was rolled out in April and BEA China’s next-generation Corporate Cyberbanking and Cash Management Services were launched in December, further enhancing BEA China’s award-winning online banking service and providing customers with improved security, enhanced functions and greater convenience.

BEA China’s Xi’an Branch is the fifth branch to launch private banking services on the Mainland, providing personalised financial and banking services to high-net-worth customers. Further, BEA China was the first bank to introduce a cooling-off period for the sale of investment products.

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

BEA operates branches in the cities of Taipei and Kaohsiung and four outlets in Macau, providing customers with a comprehensive range of banking services to meet the growing banking needs arising from closer business ties in the Greater China Region.

BEA acquired AIG Wealth Management Services (Taiwan) Limited in June 2009 and re-launched the business in August 2009 under the new name, BEA Wealth Management Services (Taiwan) Limited (“BEAWMS”). BEAWMS provides its clients with a wide range of financial solutions including wealth management, investment funds, bond and equities dealing, structured products, etc.

Macau Branch has also broadened its product range to meet customer needs and develop new sources of fee income. In the second half of 2009, Macau Branch launched Cyberbanking and Securities Cybertrading services, and commenced the distribution of insurance products in Macau.

### ***International Operations***

The Bank’s International Operations faced significant challenges in the first half of 2009, resulting from the deterioration in asset quality. The Bank has taken active measures to control impaired loans in the overseas operations, including aggressive loss provisioning and loan write-offs, and tightening of underwriting criteria.

Competing banks in these markets have had similar or worse experience, and the Bank sees significant opportunities in the current environment. An increasing number of Mainland and Hong Kong investors are searching for attractive investment opportunities overseas. Further, due to the absence of aggressive competition, the Bank is in a position to cherry-pick loans with good credit quality while earning a higher interest spread. On the back of a global economic recovery, it is expected that the International Operations will resume normal profitability in the year ahead.

In the United States, The Bank of East Asia (U.S.A.) N.A. opened a new branch in Oakland, California and merged its Branch in San Francisco Financial District with the San Francisco Chinatown Branch in January 2009. The Bank Group now operates a total of 16 outlets in the United States.

In June 2009, BEA signed a Sale and Purchase Agreement with the Industrial and Commercial Bank of China Limited (“ICBC”) to sell a 70% interest in its banking subsidiary in Canada, The Bank of East Asia (Canada), to ICBC. The transaction closed on 28<sup>th</sup> January, 2010.

BEA London Branch achieved double-digit growth in loan assets during the year, mainly due to strong demand for mortgage loans. The Branch plans to launch local internet banking and debit card services in the fourth quarter of 2010.

Singapore Branch was relocated to the Bank’s new building at 60 Robinson Road on 26<sup>th</sup> October, 2009. The Grand Opening Ceremony of the new building – BEA Building – was officiated by the Chief Executive of the Hong Kong Special Administrative Region, the Honourable Donald Tsang Yam-kuen, GBM, on 16<sup>th</sup> November, 2009. BEA Building serves as BEA's flagship in Singapore and as the hub for the Group's activities in Southeast Asia. In conjunction with the inauguration of the new building, BEA Singapore launched the Bank’s SupremeGold service. The Branch will continue to expand the range of SupremeGold services and other personal banking products in the coming year.

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

Adhering to its proven business strategy, BEA Union Investment recorded a substantial 46% one-year rise in assets under management as of 31<sup>st</sup> December, 2009.

During the year, BEA Union Investment launched the innovative BEA Union Investment Four Seasons Fund; received a licence from the China Securities Regulatory Commission to act as a Qualified Foreign Institutional Investor; and diversified its retail distribution channels in Hong Kong by partnering with a leading online platform and an independent financial adviser.

BEA Union Investment continued to win new mandates from top-tier financial institutions in China, Hong Kong, and Taiwan during the past year. The sub-advisory mandate acquired in Taiwan enjoyed excellent response from investors, with the amount raised well above target.

BEA Union Investment-managed Mandatory Provident Fund (“MPF”) funds performed exceptionally well in 2009, with 93.3% of the funds (weighted by assets under management) delivering better-than-median performance for the year ended 31<sup>st</sup> December, 2009.<sup>2</sup> This positions the Bank to benefit from the new “Members’ Choices Scheme”, allowing MPF members to switch their MPF accounts to the provider of their choice.

With strong performance in business development, investment performance, and operation management, BEA Union Investment won the “Hong Kong - Best JV Fund House of the Year” award from *Asia Asset Management* in the Best of Best Awards 2009, and “The Best Fund Manager” award from *CAPITAL* Best of the Best For Executives 2009. Also, the company was ranked as one of the top MPF performers, according to the MPF Index compiled by Mercer Investment Consulting Limited.<sup>3</sup>

### **Operations Support**

A new bank-wide loan processing system, namely Bank Wide Commercial Loan Management System, was rolled out in the fourth quarter of 2009. The completion of the project has significantly enhanced the operational efficiency of commercial loans processing, thus improving the promptness and accuracy of information flow leading to better customer satisfaction.

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<sup>2</sup> Source: Lipper and BEA Union Investment own calculation.

<sup>3</sup> Source: Mercer Investment Consulting Limited. The ranking is for the performance of the one-year period ended 30<sup>th</sup> September, 2009.



## **Other Subsidiaries**

### ***Bank of East Asia (Trustees) Limited***

#### Mandatory Provident Fund ("MPF")

Bank of East Asia (Trustees) Limited operates two MPF schemes, one under the Master Trust Scheme and one under the Industry Scheme. More than 450,000 members have joined BEA's MPF schemes, and total assets exceeded HK\$10.9 billion as of 31<sup>st</sup> December, 2009. Although the global financial markets and local economy had not yet fully recovered in 2009, the MPF contributions received and assets under management expanded by 26% and 41%, respectively, during the year.

In recognition of its outstanding service to clients, the company received the "Hong Kong, Best MPF Trustee" award from *Asia Asset Management* in the Best of Best Awards 2009.

#### 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 covering wills, family trusts, unit trusts, investment funds, charities and public funds for institutional and individual customers. In 2009, the company recorded a 20% increase in revenue from private trust business, despite a very competitive market.

### ***BEA Life Limited***

BEA Life Limited ("BEA Life"), the Bank's life insurance arm, recorded solid results in 2009 with new premium income achieving a double digit rise over 2008. The telemarketing channel registered very strong premium growth in 2009, rising 42%. Underwritten by BEA Life, the Bank launched a series of savings and endowment products in 2009, which were marketed under the names 2-Year Fast Savings Insurance, 3-Year Quick Savings Insurance, 5-Year QuickPay Whole Life Insurance and 8-Year Smart Savings Insurance. All products were well received by customers, reflecting increasing market demand for short-term savings products with guaranteed and steady returns.

### ***Blue Cross (Asia-Pacific) Insurance Limited***

Blue Cross, the Bank's wholly-owned general insurance arm, registered steady premium income growth in 2009, with particularly strong performance in medical and travel insurance. Online travel insurance continued to contribute double-digit premium income growth for Blue Cross.

Celebrating its 40<sup>th</sup> anniversary in 2009, Blue Cross hosted a celebration cocktail reception on 23<sup>rd</sup> November, 2009 with Professor K. C. Chan, Secretary for Financial Services and the Treasury, and Ms. Annie Choi, Commissioner of Insurance, as officiating guests. Coinciding with the celebration, Blue Cross re-launched its corporate website with a new look and new user-friendly features.

To reinforce its branding in medical insurance, Blue Cross launched a high-impact advertising campaign in October and December 2009. It also introduced a 40-day Medical Policy Consultation Period, the first and the most generous available locally, to enhance service transparency.

Reflecting its high concern for the well-being of the local community, Blue Cross was the first Hong Kong insurer to offer extra benefits coverage for Human Swine Influenza on travel and medical insurance.

Further, Blue Cross introduced extended travel insurance to cover trip disruption, immediately following the launch of the Outbound Travel Alert System by the Hong Kong Government in October 2009.

In September 2009, A.M. Best Company assigned Blue Cross a financial strength rating of A- (Excellent) and issuer credit rating of "a-". The outlook assigned to both ratings is stable.

In recognition of its service excellence, Blue Cross received the following awards in 2009:

- "The Most Popular Travel Insurance Company Award 2009", from Weekend Weekly Magazine (for the fifth consecutive year);
- "Pro Choice Award 2009 - Medical & General Insurance", from Capital Weekly Magazine; and
- "The Quality Life Award 2009 - Quality Insurance Service", from Liza Magazine (for the second consecutive year)

As part of its ongoing efforts to support the less fortunate in the community, Blue Cross was involved in various charitable initiatives in 2009. The company supported the Children's Cancer Foundation, Médecins Sans Frontières and United Feline Odyssey. The partnership with the Hong Kong Physically Handicapped and Able-Bodied Association continued to achieve excellent results.

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

During the year under review, Credit Gain continued to expand its network of branches with the opening of two branches in Hunghom and Yuen Long, bringing its branch network to a total of 14. Although the business environment for personal loans remained both competitive and challenging in 2009, Credit Gain recorded significant growth both in terms of the total loan portfolio and the number of client accounts. This achievement is the result of aggressive marketing, innovative products and efficient customer service.

In October, Credit Gain was awarded the "Best Performance Company Award 2009" by Capital Weekly Magazine.

### ***Blue Care Group***

Blue Care Group, a collaborative effort between the Bank and The University of Hong Kong, commenced business in March 2005. Blue Care provides health protection services to the community through clinics providing Family Medicine and network medical services.

The business of Blue Care recorded steady growth during 2009, with medical service fee income growing by 34% year on year.

As part of its ongoing effort to promote health care and health protection, Blue Care will further expand its network of quality service providers and clients.

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

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.

During the first six months of the year, Tricor and its domestic and international clientele faced significant challenges arising from the financial tsunami. With many of its clients postponing their IPO plans in Hong Kong, Tricor's IPO and share registration business was adversely affected. Further, due to the decline in business activities, Tricor's company secretarial and executive search practices faced a fall in demand for their services. There was also tremendous pressure on fees from clients as a result of the economic downturn.

However, demand for Tricor's services picked up in the second half of the year. For the full year, the company performed satisfactorily and remained a key contributor to the BEA Group's fee and commission income earnings.

While exercising caution to guard against possible financial risks during a time of uncertainty, Tricor took every opportunity to make new investments that would add value to the company. In early 2009, Tricor Malaysia acquired a majority interest in Roots Consulting, which provides training and consultancy services in the fields of corporate governance, performance management and risk management for companies. In August 2009, Tricor Services spun off a new subsidiary company called Tricor Consulting Limited in Hong Kong to provide consulting services. Finally, in September 2009, Tricor, through its subsidiary Tricor Aldbridge LLP, successfully finalised the acquisition of the company secretarial services business of KPMG in the United Kingdom. This acquisition further enlarges Tricor's global services network and enhances the group's servicing capabilities in the United Kingdom.

Tricor now employs some 1,420 professional and support staff and provides services in 21 cities. As the market leader in business, corporate and investor services, Tricor will continue to look for business opportunities as well as expand its global network.

## Human Resources

The Bank of East Asia Group employees by region as at 31<sup>st</sup> December 2009:

Hong Kong	5,281
Other Greater China	4,100
Overseas	1,159
Total	10,540

The Bank believes that excellence in customer service is the key pillar of future growth, and that an experienced and motivated workforce underpins that pillar. To this end, the Bank made every effort to retain staff and avoid redundancies during the economic downturn. By taking quick action to contain costs, the Bank was able to keep staff morale high and individuals motivated, enabling the Bank to achieve its performance targets.

Employment in the banking and finance sector started to pick up in the second half of 2009. The Bank has focussed on recruiting high calibre candidates from the market, and matching reward to performance. The Bank re-launched the Management Trainee Programme during 2009, to groom promising young candidates as future leaders of the Bank. The Bank also initiated the Talent Management Programme, which aims to identify and retain talented individuals and put them on a coherent development path.

The Bank's human resource policies are designed to motivate staff members to excel in their careers. Following a review in 2009, the Bank has revamped its performance appraisal system in line with this objective. By identifying and rewarding deserving employees, the Bank also serves the best interests of clients and shareholders.

As a caring employer and responsible corporate citizen, the Bank encourages staff members to play an active role in community activities. During this past year, the Bank launched the Volunteer Team initiative, which empowers employees who wish to share their knowledge and experience with community groups and the disadvantaged. The Bank also runs a series of staff wellbeing programmes, including the Employee Assistance Programme and the Staff Relations Programme. In addition, the Bank organises numerous recreational activities in order to promote team spirit, enhance internal communication and nurture a caring work environment.

Throughout the year, the Bank ran training workshops to equip staff members with the necessary skills to take advantage of the ever-more sophisticated tools available to serve customer needs. Existing training courses were reviewed and strengthened where necessary, particularly in the areas of risk management, regulatory compliance, productivity and service delivery, etc. The Bank's strong commitment to training empowered staff members to rise to the challenges faced immediately following the financial tsunami, and has prepared them to take maximum advantage of emerging new opportunities.

## Risk Management Division

In light of the experience gained from the financial crisis, the Bank has taken steps to further strengthen the management of risk within the Bank Group. A new Risk Management Division was established in April 2009, headed by the Group Chief Risk Officer. The Group Chief Risk Officer reports directly to the Chairman & Chief Executive.

The Risk Management Division is responsible for Group policy with regard to different types of risk, such as credit risk, market risk, operational risk, etc. In this regard, the Division assesses regulatory requirements, in particular the requirements under the Supervisory Policy Manuals issued by the HKMA, and carries out the following job mandates:-

- to formulate risk management policies and guidelines and to perform regular reviews in order to ensure that such policies and guidelines are kept up to date;
- to monitor risk exposure and compliance with the risk management framework;
- to co-ordinate risk-related projects;
- to report monitoring results and significant risk related issues to the specialised risk management committees, and / or Risk Management Committee and / or the Board, where appropriate, so as to assist the latter to discharge their major duty of overseeing risk management activities.

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

Hong Kong, 11<sup>th</sup> February, 2010

*As at the date of this announcement, the Executive Director of the Bank is: Dr. The Hon. Sir David LI Kwok-po (Chairman & Chief Executive); Non-executive Directors of the Bank are: Professor Arthur LI Kwok-cheung (Deputy Chairman), Mr. Aubrey LI Kwok-sing, Dr. William MONG Man-wai, Tan Sri Dr. KHOO Kay-peng, Mr. Richard LI Tzar-kai, Mr. Eric LI Fook-chuen, Mr. Stephen Charles LI Kwok-sze and Dr. Isidro FAINÉ CASAS; and Independent Non-executive Directors are: Dr. Allan WONG Chi-yun (Deputy Chairman), Mr. WONG Chung-hin, Dr. LEE Shau-kee, 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.*