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The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

ANNOUNCEMENT OF 2013 FINAL RESULTS

SUMMARY OF RESULTS

The Board of the Bank is pleased to announce the audited results (Note1(a)) of the Group for the year ended 31st December, 2013. 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 2013 annual accounts.

Consolidated Income Statement

	2013	2012
	HK\$ Mn	HK\$ Mn
Interest income	25,084	22,635
Interest expense	(12,917)	(12,911)
Net interest income	12,167	9,724
Fee and commission income	4,874	4,159
Fee and commission expense	(882)	(780)
Net fee and commission income	3,992	3,379
Net trading profits	878	765
Net result from financial instruments designated at fair value through profit or loss	(387)	664
Net hedging loss	(22)	(15)
Other operating income	625	592
Non-interest income	5,086	5,385
Operating income	17,253	15,109
Operating expenses	(9,583)	(8,725)
Operating profit before impairment losses	7,670	6,384
Impairment losses on loans and advances	(458)	(213)
Write back of impairment losses on held-to-maturity investments	-	11
Impairment losses on available-for-sale financial assets	(69)	(63)
Impairment losses	(527)	(265)
Operating profit after impairment losses	7,143	6,119
Net profit on sale of available-for-sale financial assets	80	82
Net profit on sale of loans and receivables	-	35
Net profit on sale of subsidiaries/associates	27	203
Net profit on sale of fixed assets	164	139
Valuation gains on properties	388	451
Share of profits less losses of associates	684	536
Profit for the year before taxation	8,486	7,565
Income tax		
Current tax (Note 1(b))		
- Hong Kong	(708)	(568)
- Outside Hong Kong	(958)	(730)
Deferred tax	(113)	(113)
Profit for the year after taxation	6,707	6,154
Attributable to:		
Owners of the parent	6,613	6,056
Non-controlling interests	94	98
Profit after taxation	6,707	6,154
Per share		
- Basic earnings (Note 1(c))	HK\$2.78	HK\$2.72
- Diluted earnings (Note 1(c))	HK\$2.78	HK\$2.72
- Dividends	HK\$1.11	HK\$1.06

Consolidated Statement of Comprehensive Income

	<u>2013</u>	<u>2012</u>
	HK\$ Mn	HK\$ Mn
Net profit	<u>6,707</u>	<u>6,154</u>
Other comprehensive income for the year (after taxation and reclassification adjustments):		
Item that will not be reclassified to income statement:		
Premises:		
- unrealised surplus on revaluation of premises	670	-
- exchange differences	2	1
Items that may be reclassified subsequently to income statement:		
Premises:		
- deferred taxes	1	1
Available-for-sale investment revaluation reserve:		
- fair value changes recognised (from)/to equity	(46)	1,121
- fair value changes reclassified from/(to) income statement:		
- on impairment and amortisation	84	98
- on disposal	(142)	(113)
- deferred taxes	71	(120)
- exchange differences	(1)	(1)
Share of changes in equity of associates	(18)	4
Exchange differences on other reserves	64	15
Exchange differences on translation of:		
- accounts of overseas branches, subsidiaries and associates	105	379
Other comprehensive income	<u>790</u>	<u>1,385</u>
Total comprehensive income	<u>7,497</u>	<u>7,539</u>
Total comprehensive income attributable to:		
Owners of the parent	7,403	7,441
Non-controlling interests	94	98
	<u>7,497</u>	<u>7,539</u>

Consolidated Statement of Financial Position

	2013	2012
	HK\$ Mn	HK\$ Mn
ASSETS		
Cash and balances with banks and other financial institutions	68,777	85,512
Placements with banks and other financial institutions	57,372	50,618
Trade bills	59,932	55,740
Trading assets	5,331	4,213
Financial assets designated at fair value through profit or loss	11,606	15,169
Positive fair value of derivatives	3,625	3,125
Advances to customers and other accounts	448,255	387,273
Available-for-sale financial assets	71,589	64,731
Held-to-maturity investments	5,048	4,320
Investments in associates	4,779	4,677
Fixed assets	13,530	12,552
- Investment properties	4,400	3,100
- Other property and equipment	9,130	9,452
Goodwill and intangible assets	3,990	4,041
Deferred tax assets	120	143
Total Assets	<u>753,954</u>	<u>692,114</u>
EQUITY AND LIABILITIES		
Deposits and balances of banks and other financial institutions	28,923	30,597
Deposits from customers	534,971	498,770
Trading liabilities	11	21
Negative fair value of derivatives	4,545	3,806
Certificates of deposit issued	42,929	27,370
- At fair value through profit or loss	8,509	6,095
- At amortised cost	34,420	21,275
Current taxation	1,353	988
Debt securities issued	4,728	8,657
- At fair value through profit or loss	150	698
- At amortised cost	4,578	7,959
Deferred tax liabilities	647	626
Other accounts and provisions	53,981	45,377
Loan capital – at amortised cost	13,632	14,263
Total Liabilities	<u>685,720</u>	<u>630,475</u>
Share capital	5,724	5,568
Reserves	57,958	51,585
Total equity attributable to owners of the parent	63,682	57,153
Non-controlling interests	4,552	4,486
Total Equity	<u>68,234</u>	<u>61,639</u>
Total Equity and Liabilities	<u>753,954</u>	<u>692,114</u>

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	Non-controlling interests	Total equity
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1 st January, 2013	5,568	16,083	135	2,769	1,012	976	130	13,823	2,611	14,046	57,153	4,486	61,639
Changes in equity													
Profit for the year	-	-	-	-	-	-	-	-	-	6,613	6,613	94	6,707
Other comprehensive income	-	-	-	105	(34)	673	-	-	46	-	790	-	790
Total comprehensive income	-	-	-	105	(34)	673	-	-	46	6,613	7,403	94	7,497
Shares issued in lieu of dividend	144	1,550	-	-	-	-	-	-	-	-	1,694	-	1,694
Shares issued under Staff Share Option Schemes	12	106	-	-	-	-	-	-	-	-	118	-	118
Equity settled share-based transaction	-	-	21	-	-	-	-	-	-	-	21	-	21
Transfer	-	31	(87)	-	-	(7)	70	54	1,113	(1,174)	-	-	-
Dividends declared or approved during the year	-	-	-	-	-	-	-	-	-	(2,707)	(2,707)	(64)	(2,771)
Purchase of interests in businesses from non-controlling interests investors	-	-	-	-	-	-	-	-	-	-	-	33	33
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	-	3	3
At 31 st December, 2013	5,724	17,770	69	2,874	978	1,642	200	13,877	3,770	16,778	63,682	4,552	68,234
At 1 st January, 2012	5,190	12,037	140	2,390	27	1,032	86	13,744	2,202	10,768	47,616	4,428	52,044
Changes in equity													
Profit for the year	-	-	-	-	-	-	-	-	-	6,056	6,056	98	6,154
Other comprehensive income	-	-	-	379	985	2	-	-	19	-	1,385	-	1,385
Total comprehensive income	-	-	-	379	985	2	-	-	19	6,056	7,441	98	7,539
Shares issued in lieu of dividend	97	1,002	-	-	-	-	-	-	-	-	1,099	-	1,099
Subscription of new shares	279	3,022	-	-	-	-	-	-	-	-	3,301	-	3,301
Shares issued under Staff Share Option Schemes	2	16	-	-	-	-	-	-	-	-	18	-	18
Equity settled share-based transaction	-	-	22	-	-	-	-	-	-	-	22	-	22
Transfer	-	6	(27)	-	-	(58)	48	79	390	(485)	(47)	47	-
Dividends declared or approved during the year	-	-	-	-	-	-	-	-	-	(2,293)	(2,293)	(68)	(2,361)
Reversal due to disposal of a subsidiary	-	-	-	-	-	-	(4)	-	-	-	(4)	-	(4)
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	-	(19)	(19)
At 31 st December, 2012	5,568	16,083	135	2,769	1,012	976	130	13,823	2,611	14,046	57,153	4,486	61,639

* Other reserves include statutory reserve and other reserves.

Consolidated Cash Flow Statement

	2013 HK\$ Mn	2012 HK\$ Mn
OPERATING ACTIVITIES		
Profit for the year before taxation	8,486	7,565
Adjustments for:		
Charge for impairment losses on loans and advances	458	213
Charge for impairment allowances on held-to-maturity investments and available-for-sale financial assets	69	52
Share of profits less losses of associates	(684)	(536)
Net profit on sale of available-for-sale financial assets	(80)	(82)
Net profit on sale of subsidiaries and associates	(27)	(203)
Net profit on sale of fixed assets	(164)	(139)
Interest expense on loan capital and certificates of deposit	1,579	1,534
Depreciation on fixed assets	670	657
Dividend income from available-for-sale financial assets	(43)	(42)
Amortisation of intangible assets	32	33
Amortisation of premium/discount on certificates of deposit and loan capital issued	132	110
Revaluation (gains)/losses on certificates of deposit and loan capital issued	(487)	298
Valuation gains on investment properties	(388)	(454)
Revaluation loss on bank premises	-	3
Equity-settled share-based payment expenses	21	22
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	9,574	9,031
(Increase)/decrease in operating assets:		
Cash and balances with banks with original maturity beyond three months	(5,178)	(811)
Placements with banks and other financial institutions with original maturity beyond three months	10,390	8,715
Trade bills	(4,191)	(8,849)
Trading assets	(1,092)	(1,828)
Financial assets designated at fair value through profit or loss	3,563	1,494
Positive fair value of derivatives	(500)	90
Advances to customers	(55,000)	(40,074)
Advances to banks and other financial institutions	141	47
Held-to-maturity debt securities	(623)	379
Available-for-sale financial assets	(12,087)	(12,256)
Other accounts and accrued interest	(6,591)	(10,578)
Increase/(decrease) in operating liabilities:		
Deposits and balances of banks and other financial institutions	(1,674)	14,715
Deposits from customers	36,201	35,710
Trading liabilities	(10)	11
Negative fair value of derivatives	739	(618)
Other accounts and provisions	8,684	9,382
Exchange adjustments	728	368
NET CASH (OUTFLOW)/INFLOW FROM OPERATIONS	(16,926)	4,928
Income tax paid		
Hong Kong profits tax paid	(537)	(50)
Outside Hong Kong profits tax paid	(767)	(746)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(18,230)	4,132

	2013 HK\$ Mn	2012 HK\$ Mn
INVESTING ACTIVITIES		
Dividends received from associates	151	140
Dividends received from available-for-sale equity securities	43	42
Purchase of equity securities	(1,293)	(777)
Proceeds from sale of equity securities	1,336	745
Purchase of fixed assets	(750)	(436)
Purchase of investment properties	(154)	(38)
Proceeds from disposal of fixed assets	591	505
Purchase of shareholding in associates	(71)	(99)
Proceeds from disposal of an associate	160	-
Purchase of subsidiaries	-	(11)
Proceeds from sale of interest in a subsidiary	-	584
Purchase of interests in business from non-controlling interests investors	33	-
NET CASH GENERATED FROM INVESTING ACTIVITIES	46	655
FINANCING ACTIVITIES		
Ordinary dividends paid	(747)	(932)
Distribution to Hybrid Tier 1 issue holders	(330)	(331)
Issue of ordinary share capital	118	18
Subscription of new shares	-	3,301
Issue of certificates of deposit	68,516	40,875
Issue of debt securities	4,002	4,910
Issue of loan capital	-	5,066
Redemption of certificates of deposit issued	(53,274)	(25,070)
Redemption of debt securities issued	(8,173)	(2,710)
Redemption of loan capital	-	(7,920)
Interest paid on loan capital	(752)	(768)
Interest paid on certificates of deposit issued	(537)	(324)
Interest paid on debt securities issued	(370)	(345)
NET CASH GENERATED FROM FINANCING ACTIVITIES	8,453	15,770
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(9,731)	20,557
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	99,738	79,181
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	90,007	99,738
Cash flows from operating activities included:		
Interest received	25,131	23,083
Interest paid	12,698	12,896
Dividend received	78	74

Notes to the Financial Statements

1. (a) The financial information set out in this report does not constitute the Group's statutory accounts for the year ended 31st December, 2013 but there is no material change as compared to those accounts. The statutory accounts for the year ended 31st December, 2013 will be available from the website of the HKEx.
- (b) The provision for Hong Kong profits tax for 2013 is calculated at 16.5% (2012: 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\$6,283 million (2012: HK\$5,725 million) after the distribution of HK\$330 million (2012: HK\$331 million) to Hybrid Tier 1 issue holders and on the weighted average of 2,261 million (2012: 2,105 million) ordinary shares outstanding during the year.
- (ii) The calculation of diluted earnings per share is based on earnings of HK\$6,283 million (2012: HK\$5,725 million) after the distribution of HK\$330 million (2012: HK\$331 million) to Hybrid Tier 1 issue holders and on 2,262 million (2012: 2,106 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

2. Dividends

	<u>2013</u> HK\$ Mn	<u>2012</u> HK\$ Mn
Interim dividend declared and paid of HK\$0.43 per share on 2,264 million shares (2012: HK\$0.43 per share on 2,100 million shares)	973	903
Second interim dividend paid in respect of the previous financial year on shares issued under the share option schemes subsequent to the end of the reporting period and before the close of the Register of Members of the Bank, of HK\$0.63 per share (2012: HK\$0.51 per share)	1	-
Second interim dividend in lieu of the final dividend of HK\$0.68 per share on 2,290 million shares (2012: HK\$0.63 per share on 2,227 million shares)	<u>1,557</u>	<u>1,403</u>
	<u>2,531</u>	<u>2,306</u>

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

3. Interest Income

	<u>2013</u> HK\$ Mn	<u>2012</u> HK\$ Mn
Securities classified as held-to-maturity or available-for-sale		
- listed	692	464
- unlisted	1,116	944
Trading assets		
- listed	16	18
- unlisted	241	218
Interest rate swaps	1,670	1,576
Financial assets designated at fair value through profit or loss		
- listed	401	433
- unlisted	184	220
Loans, deposits with banks and financial institutions and trade bills	<u>20,764</u>	<u>18,762</u>
	<u>25,084</u>	<u>22,635</u>

Included above is interest income accrued on impaired financial assets of HK\$88 million (2012: HK\$85 million) for the year ended 31st December, 2013.

4. Interest Expense

	2013	2012
	HK\$ Mn	HK\$ Mn
Customer deposits, deposits of banks and other financial institutions and certificates of deposit issued which are stated at amortised cost	10,019	9,754
Debt securities issued	272	360
Subordinated notes carried at amortised cost	751	730
Interest rate swaps	1,736	1,877
Financial instruments designated at fair value through profit or loss	138	170
Other borrowings	1	20
	<u>12,917</u>	<u>12,911</u>

5. Fee and Commission Income

Fee and commission income arises from the following services:

	2013	2012
	HK\$ Mn	HK\$ Mn
Corporate services	1,064	1,041
Credit cards	997	860
Loans, overdrafts and guarantees	970	599
Trade finance	458	400
Other retail banking services	417	369
Securities and brokerage	345	279
Trust and other fiduciary activities	202	152
Others	421	459
Total fee and commission income	<u>4,874</u>	<u>4,159</u>

of which:

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

	4,011	3,396
Fee income	4,874	4,159
Fee expenses	(863)	(763)

6. Net Trading Profits

	2013	2012
	HK\$ Mn	HK\$ Mn
Profit/(Loss) on dealing in foreign currencies	287	(68)
Profit on trading securities	38	275
Net gain on derivatives	518	526
Dividend income from listed trading securities	35	32
	<u>878</u>	<u>765</u>

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

	<u>2013</u> HK\$ Mn	<u>2012</u> HK\$ Mn
Revaluation gain on debts issued	16	17
Net loss on sale of other financial instruments designated at fair value through profit or loss	(87)	(113)
Profit on redemption of subordinated notes issued	-	24
Revaluation (loss)/gain on other financial instruments designated at fair value through profit or loss	(316)	736
	<u>(387)</u>	<u>664</u>

8. Net Hedging Loss

	<u>2013</u> HK\$ Mn	<u>2012</u> HK\$ Mn
Fair value hedges		
- Net gain/(loss) on hedged items attributable to the hedged risk	299	(229)
- Net (loss)/gain on hedging instruments	(321)	214
	<u>(22)</u>	<u>(15)</u>

There was insignificant ineffectiveness recognised in the Group's income statement arising from cash flow hedge for the year 2013 and 2012.

9. Other Operating Income

	<u>2013</u> HK\$ Mn	<u>2012</u> HK\$ Mn
Dividend income from available-for-sale financial assets		
- listed	8	8
- unlisted	35	34
Rental from safe deposit boxes	77	78
Net revenue from insurance activities	277	241
Rental income on properties	127	142
Others	101	89
	<u>625</u>	<u>592</u>

10. Operating Expenses

	2013	2012
	HK\$ Mn	Restated HK\$ Mn
Contributions to defined contribution plan		
- Hong Kong	146	142
- Outside Hong Kong	315	264
Equity-settled share-based payment expenses	21	22
Salaries and other staff costs	4,929	4,372
Total staff costs	<u>5,411</u>	<u>4,800</u>
Premises and equipment expenses excluding depreciation		
- Rental of premises	652	583
- Maintenance, repairs and others	585	551
Total premises and equipment expenses excluding depreciation	<u>1,237</u>	<u>1,134</u>
Depreciation on fixed assets	<u>670</u>	<u>657</u>
Amortisation of intangible assets	<u>32</u>	<u>33</u>
Other operating expenses		
- Stamp duty, overseas and PRC business taxes, and value added taxes	680	580
- Communications, stationery and printing	316	325
- Advertising expenses	264	272
- Legal and professional fees	262	252
- Business promotions and business travel	203	176
- Card related expenses	101	160
- Insurance expenses	29	32
- Donations	19	14
- Audit fee	15	15
- Membership fees	15	12
- Administration expenses of corporate services	14	14
- Bank charges	10	12
- Bank licence	4	4
- Others	301	233
Total other operating expenses	<u>2,233</u>	<u>2,101</u>
Total operating expenses	<u>9,583</u>	<u>8,725</u>

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

	2013	2012
	HK\$ Mn	HK\$ Mn
Net revaluation gain transferred from reserves	142	113
Loss arising in current year	(62)	(31)
	<u>80</u>	<u>82</u>

12. Net Profit on Sale of Fixed Assets

	2013 HK\$ Mn	2012 HK\$ Mn
Net profit on sale of investment properties	84	137
Net profit on sale of bank premises, furniture, fixtures and equipment	80	2
	<u>164</u>	<u>139</u>

13. Valuation Gains on Properties

	2013 HK\$ Mn	2012 HK\$ Mn
Investment properties	388	454
Bank premises	-	(3)
	<u>388</u>	<u>451</u>

14. Trading Assets

	2013 HK\$ Mn	2012 HK\$ Mn
Treasury bills (including Exchange Fund Bills)	26	9
Debt securities	3,876	3,048
Equity securities	1,407	1,138
Investment funds	22	18
	<u>5,331</u>	<u>4,213</u>
Issued by:		
Central governments and central banks	236	26
Public sector entities	58	336
Banks and other financial institutions	2,864	681
Corporate entities	2,117	3,152
Other entities	56	18
	<u>5,331</u>	<u>4,213</u>
Analysed by place of listing:		
Debt securities		
Listed in Hong Kong	19	15
Listed outside Hong Kong	281	342
	300	357
Unlisted	3,602	2,700
	<u>3,902</u>	<u>3,057</u>
Equity securities		
Listed in Hong Kong	1,119	904
Listed outside Hong Kong	288	234
	<u>1,407</u>	<u>1,138</u>
Investment funds		
Listed in Hong Kong	7	8
Listed outside Hong Kong	15	10
	<u>22</u>	<u>18</u>
	<u>5,331</u>	<u>4,213</u>

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

	<u>2013</u>	<u>2012</u>
	HK\$ Mn	HK\$ Mn
Certificates of deposits held	128	-
Debt securities	11,071	14,751
Equity securities	354	412
Investment funds	53	6
	<u>11,606</u>	<u>15,169</u>
Issued by:		
Central governments and central banks	355	450
Banks and other financial institutions	5,894	6,794
Corporate entities	5,303	7,920
Other entities	54	5
	<u>11,606</u>	<u>15,169</u>
Analysed by place of listing:		
Debt securities		
Listed in Hong Kong	1,520	3,330
Listed outside Hong Kong	5,887	6,792
	<u>7,407</u>	<u>10,122</u>
Unlisted	3,792	4,629
	<u>11,199</u>	<u>14,751</u>
Equity securities		
Listed in Hong Kong	115	224
Listed outside Hong Kong	239	188
	<u>354</u>	<u>412</u>
Investment funds		
Unlisted	53	6
	<u>53</u>	<u>6</u>
	<u>11,606</u>	<u>15,169</u>

16. Advances to Customers and Other Accounts

(a) Advances to customers and other accounts

	2013	2012
	HK\$ Mn	HK\$ Mn
(i) Advances to customers	405,357	350,720
Less: Impairment allowances		
- Individual	(323)	(238)
- Collective	(699)	(681)
	<u>404,335</u>	<u>349,801</u>
(ii) Other accounts		
Advances to banks and other financial institutions	5	146
Less: Impairment allowances – Individual	(2)	(4)
	<u>3</u>	<u>142</u>
Notes and bonds	1	1
Certificates of deposit held	116	77
Accrued interest	2,641	2,688
Customer liability under acceptance	31,393	24,633
Other accounts	9,796	9,962
	<u>43,947</u>	<u>37,361</u>
Less: Impairment allowances		
- Individual	(13)	(28)
- Collective	(17)	(3)
	<u>43,917</u>	<u>37,330</u>
	<u><u>448,255</u></u>	<u><u>387,273</u></u>

(b) Advances to customers – by industry sectors

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

	2013		2012	
	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	13,743	71.01	13,460	71.28
- Property investment	37,574	87.51	39,522	90.10
- Financial concerns	13,780	81.80	11,557	86.79
- Stockbrokers	1,222	88.85	804	85.26
- Wholesale and retail trade	14,296	34.11	10,232	41.50
- Manufacturing	6,963	37.04	6,331	34.07
- Transport and transport equipment	5,954	66.01	5,414	64.01
- Recreational activities	96	33.02	215	44.22
- Information technology	1,063	8.88	1,170	8.28
- Others	10,189	50.34	7,580	47.25
- Sub-total	<u>104,880</u>	68.31	<u>96,285</u>	72.25
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,096	100.00	1,171	100.00
- Loans for the purchase of other residential properties	28,537	99.99	25,337	99.98
- Credit card advances	4,137	0.00	3,802	0.00
- Others	19,453	68.64	16,297	75.17
- Sub-total	<u>53,223</u>	80.76	<u>46,607</u>	83.15
Total loans for use in Hong Kong	158,103	72.50	142,892	75.80
Trade finance	5,895	39.60	5,156	41.08
Loans for use outside Hong Kong *	<u>241,359</u>	71.02	<u>202,672</u>	70.42
Total advances to customers	<u>405,357</u>	71.14	<u>350,720</u>	72.18

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

	2013		2012	
	Gross advances HK\$ Mn	% of secured advances %	Gross advances HK\$ Mn	% of secured advances %
Property development	33,980	52.70	27,835	55.35
Property investment	29,801	98.45	29,895	98.45
Wholesale and retail trade	35,088	79.84	26,872	74.89
Manufacturing	12,081	47.34	10,116	46.81
Others	68,844	66.67	57,015	63.41
	<u>179,794</u>	70.57	<u>151,733</u>	69.76

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:

	2013	2012
	HK\$ Mn	HK\$ Mn
(i) Property development		
a. Individually impaired loans	131	166
b. Individual impairment allowance	16	21
c. Collective impairment allowance	62	59
d. Provision charged to income statement		
- individual impairment loss	-	7
- collective impairment loss	22	18
e. Written off	-	8
(ii) Property investment		
a. Individually impaired loans	242	174
b. Individual impairment allowance	5	7
c. Collective impairment allowance	140	177
d. Provision charged to income statement		
- individual impairment loss	-	12
- collective impairment loss	35	56
e. Written off	-	19
(iii) Loans for purchase of residential properties		
a. Individually impaired loans	169	102
b. Individual impairment allowance	2	1
c. Collective impairment allowance	55	54
d. Provision charged to income statement		
- individual impairment loss	3	5
- collective impairment loss	12	8
e. Written off	2	1
(iv) Wholesale and retail trade		
a. Individually impaired loans	314	264
b. Individual impairment allowance	106	77
c. Collective impairment allowance	109	94
d. Provision charged to income statement		
- individual impairment loss	120	170
- collective impairment loss	38	24
e. Written off	72	120

(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.

	2013				
	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	172,436	188	384	81	210
People's Republic of China	189,924	653	840	159	316
Other Asian Countries	22,124	18	120	72	106
Others	20,873	65	237	11	67
Total	405,357	924	1,581	323	699

% of total advances to customers

0.39%

Market value of security held against impaired advances to customers

3,779

	2012				
	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	159,038	171	338	84	208
People's Republic of China	151,588	375	453	119	232
Other Asian Countries	19,446	29	43	17	118
Others	20,648	81	304	18	123
Total	350,720	656	1,138	238	681

% of total advances to customers

0.32%

Market value of security held against impaired advances to customers

2,947

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.

17. Available-for-Sale Financial Assets

	2013	2012
	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	18,797	22,873
Certificates of deposit held	2,386	2,914
Debt securities	47,499	36,546
Equity securities	2,722	2,307
Investment funds	185	91
	<u>71,589</u>	<u>64,731</u>
Issued by:		
Central governments and central banks	19,694	23,087
Public sector entities	2,273	2,198
Banks and other financial institutions	25,350	20,855
Corporate entities	24,048	18,462
Other entities	224	129
	<u>71,589</u>	<u>64,731</u>
Analysed by place of listing:		
Debt securities		
Listed in Hong Kong	8,165	5,450
Listed outside Hong Kong	12,292	12,519
	<u>20,457</u>	<u>17,969</u>
Unlisted	48,225	44,364
	<u>68,682</u>	<u>62,333</u>
Equity securities		
Listed in Hong Kong	580	553
Listed outside Hong Kong	1,318	978
	<u>1,898</u>	<u>1,531</u>
Unlisted	824	776
	<u>2,722</u>	<u>2,307</u>
Investment funds		
Listed outside Hong Kong	1	19
Unlisted	184	72
	<u>185</u>	<u>91</u>
	<u>71,589</u>	<u>64,731</u>

18. Held-to-Maturity Investments

	2013	2012
	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	649	615
Certificates of deposit held	1,186	1,070
Debt securities	3,213	2,635
	<u>5,048</u>	<u>4,320</u>
Issued by:		
Central governments and central banks	1,745	1,552
Public sector entities	153	316
Banks and other financial institutions	803	1,108
Corporate entities	2,347	1,344
	<u>5,048</u>	<u>4,320</u>
Analysed by place of listing:		
Debt securities		
Listed in Hong Kong	1,119	627
Listed outside Hong Kong	1,777	1,527
	<u>2,896</u>	<u>2,154</u>
Unlisted	2,152	2,166
	<u>5,048</u>	<u>4,320</u>
Fair value:		
Listed securities	2,983	2,295
Unlisted securities	2,152	2,179
	<u>5,135</u>	<u>4,474</u>

19. 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 senior management for the purposes of resource allocation and performance assessment, the Group has presented the following nine reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2013

	Hong Kong banking operations									Total reportable segments HK\$ Mn	Others HK\$ Mn	Inter-segment elimination HK\$ Mn	Total HK\$ Mn
	Personal banking	Corporate banking	Treasury markets	Wealth management	Financial institutions	Others	China operations	Overseas operations	Corporate services				
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn				
Net interest income/(expense)	2,129	2,435	(27)	295	93	201	5,868	986	5	11,985	180	2	12,167
Non-interest income	705	620	80	313	22	588	1,118	403	1,069	4,918	504	(336)	5,086
Operating income	2,834	3,055	53	608	115	789	6,986	1,389	1,074	16,903	684	(334)	17,253
Operating expenses	(1,592)	(194)	(129)	(179)	(14)	(541)	(4,263)	(449)	(784)	(8,145)	(1,772)	334	(9,583)
Operating profit/(loss) before impairment losses	1,242	2,861	(76)	429	101	248	2,723	940	290	8,758	(1,088)	-	7,670
(Charge for)/Write back of impairment losses on loans and advances and other accounts	(91)	(68)	2	(1)	-	(10)	(280)	(5)	(5)	(458)	-	-	(458)
Impairment losses on available-for-sale financial assets and held-to-maturity investments	-	-	(68)	-	-	(1)	-	-	-	(69)	-	-	(69)
Operating profit/(loss) after impairment losses	1,151	2,793	(142)	428	101	237	2,443	935	285	8,231	(1,088)	-	7,143
Profit on sale of fixed assets, available-for-sale financial assets and loans and receivables	-	4	62	-	-	7	131	22	-	226	18	-	244
Profit on sale of subsidiaries/associates	-	-	-	-	-	-	27	-	-	27	-	-	27
Valuation gains on properties	-	-	-	-	-	-	-	164	-	164	224	-	388
Share of profits less losses of associates	-	-	-	-	-	1	182	502	(1)	684	-	-	684
Profit/(Loss) before taxation	1,151	2,797	(80)	428	101	245	2,783	1,623	284	9,332	(846)	-	8,486
Depreciation for the year	(72)	(2)	(6)	(3)	(1)	(22)	(343)	(19)	(31)	(499)	(171)	-	(670)
Segment assets	52,808	163,639	121,734	25,895	9,945	15,801	357,153	79,518	2,968	829,461	30,334	(110,620)	749,175
Investments in associates	-	-	-	-	-	59	536	4,164	20	4,779	-	-	4,779
Total assets	52,808	163,639	121,734	25,895	9,945	15,860	357,689	83,682	2,988	834,240	30,334	(110,620)	753,954
Total liabilities	260,517	1,631	75,166	21,171	1	11,600	330,958	67,928	745	769,717	2,218	(86,215)	685,720
Capital expenditure incurred during the year	35	1	3	2	-	37	318	59	161	616	97	-	713

2012 (Restated)

	Hong Kong banking operations									Total reportable segments	Others	Inter-segment elimination	Total
	Personal banking	Corporate banking	Treasury markets	Wealth management	Financial institutions	Others	China operations	Overseas operations	Corporate services				
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn				
Net interest income/(expense)	2,224	1,389	(221)	172	172	174	4,774	909	4	9,597	125	2	9,724
Non-interest income	643	551	756	289	18	510	966	396	1,049	5,178	538	(331)	5,385
Operating income	2,867	1,940	535	461	190	684	5,740	1,305	1,053	14,775	663	(329)	15,109
Operating expenses	(1,536)	(178)	(122)	(156)	(13)	(484)	(3,594)	(533)	(729)	(7,345)	(1,709)	329	(8,725)
Operating profit/(loss) before impairment losses	1,331	1,762	413	305	177	200	2,146	772	324	7,430	(1,046)	-	6,384
(Charge for)/Write back of impairment losses on loans and advances and other accounts	(51)	(79)	60	13	-	(4)	(158)	57	(8)	(170)	(43)	-	(213)
(Charge for)/Write back of impairment losses on available-for-sale financial assets and held-to-maturity investments	-	-	(61)	-	-	(1)	-	10	-	(52)	-	-	(52)
Operating profit/(loss) after impairment losses	1,280	1,683	412	318	177	195	1,988	839	316	7,208	(1,089)	-	6,119
Profit/(Loss) on sale of fixed assets, available-for-sale financial assets and loans and receivables	(6)	3	69	-	-	7	11	-	-	84	172	-	256
Profit/(Loss) on sale of subsidiaries	-	-	-	-	-	-	-	203	(4)	199	4	-	203
Valuation gains on properties	-	-	-	-	-	-	50	39	-	89	362	-	451
Share of profits less losses of associates	-	-	-	-	-	9	106	421	-	536	-	-	536
Profit/(Loss) before taxation	1,274	1,686	481	318	177	211	2,155	1,502	312	8,116	(551)	-	7,565
Depreciation for the year	(71)	(2)	(5)	(3)	(1)	(17)	(354)	(22)	(22)	(497)	(160)	-	(657)
Segment assets	46,544	143,869	121,226	21,989	7,372	13,268	329,624	70,989	2,897	757,778	27,659	(98,000)	687,437
Investments in associates	-	-	-	-	-	59	513	4,105	-	4,677	-	-	4,677
Total assets	46,544	143,869	121,226	21,989	7,372	13,327	330,137	75,094	2,897	762,455	27,659	(98,000)	692,114
Total liabilities	252,630	1,606	55,176	17,427	-	9,837	305,303	60,201	715	702,895	2,514	(74,934)	630,475
Capital expenditure incurred during the year	69	-	2	1	-	24	198	33	28	355	74	-	429

20. Off-balance Sheet Exposures

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

	<u>2013</u>	<u>2012</u>
	HK\$ Mn	HK\$ Mn
Contractual amounts of contingent liabilities and commitments		
Direct credit substitutes	18,670	13,303
Transaction-related contingencies	2,655	2,364
Trade-related contingencies	1,319	1,930
Commitments that are unconditionally cancellable without prior notice	126,463	52,631
Other commitments with an original maturity		
- up to 1 year	56,690	103,119
- over 1 year	29,319	36,433
Total	<u>235,116</u>	<u>209,780</u>
Credit risk weighted amounts	<u>44,605</u>	<u>71,525</u>
Fair value of derivatives		
Assets		
Exchange rate contracts	1,675	1,279
Interest rate contracts	1,538	1,502
Equity contracts	303	191
Others	109	153
	<u>3,625</u>	<u>3,125</u>
Liabilities		
Exchange rate contracts	2,335	1,559
Interest rate contracts	1,813	1,924
Equity contracts	288	170
Others	109	153
	<u>4,545</u>	<u>3,806</u>
Notional amounts of derivatives		
Exchange rate contracts	566,787	407,120
Interest rate contracts	196,583	150,152
Equity contracts	16,569	13,673
Others	3,905	3,478
	<u>783,844</u>	<u>574,423</u>
Credit risk weighted amounts		
Exchange rate contracts	6,203	2,878
Interest rate contracts	2,210	1,618
Equity contracts	841	574
Others	703	301
	<u>9,957</u>	<u>5,371</u>

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

21. Reserves

	2013	2012
	HK\$ Mn	HK\$ Mn
Share premium	17,770	16,083
General reserve	13,877	13,823
Revaluation reserve on bank premises	1,642	976
Investment revaluation reserve	978	1,012
Exchange revaluation reserve	2,874	2,769
Other reserves	4,039	2,876
Retained profits*	16,778	14,046
Total	<u>57,958</u>	<u>51,585</u>
Dividends declared, not provided for	<u>1,557</u>	<u>1,403</u>

*A regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances and investments in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the HKMA. As at 31st December, 2013, HK\$5,381 million (31st December, 2012: HK\$4,580 million) was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the HKMA.

22. Non-adjusting events after the reporting period

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

23. Comparative Figures

The 2012 figures in Note 19 – Segment Reporting have been restated due to the modification of the internal fund transfer pricing methodology of the Bank with a view to further enhancing the allocation process of interest income and expenses of Hong Kong banking operations.

For other restatements, the comparative figure has been restated to conform with current year's presentation.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital Adequacy

	2013	2012
	HK\$ Mn	HK\$ Mn
Capital base		
- Common Equity Tier 1 capital	49,245	n.a.
- Additional Tier 1 capital	3,190	n.a.
- Total Tier 1 capital	52,435	41,831
- Tier 2 capital	16,489	13,902
- Total capital	68,924	55,733
Risk weighted assets by risk type		
- Credit risk	393,020	355,764
- Market risk	16,524	13,244
- Operational risk	26,654	22,258
	436,198	391,266
Less: Deductions	(2,322)	(1,639)
	433,876	389,627
	2013	2012
	%	%
Common Equity Tier 1 capital ratio	11.4	n.a.
Tier 1 capital ratio	12.1	10.7
Total capital ratio	15.9	14.3

Capital adequacy ratios were compiled in accordance with the Capital Rules issued by the HKMA. The ratios as of 31st December, 2013 were compiled in accordance with the amended Capital Rules effective from 1st January, 2013 for the implementation of the “Basel III” capital accord, whereas the ratios as of 31st December, 2012 were compiled in accordance with the “pre-amended Capital Rules” as in force immediately before 1st January, 2013. In accordance with the Capital Rules, the Bank has adopted the foundation internal ratings-based approach for the calculation of the risk-weighted assets for credit risk and the internal models approach for the calculation of market risk and standardised approach for operational risk.

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

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

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

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

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

B. Liquidity Ratio

	2013 %	2012 %
Average liquidity ratio for the year	47.0	46.6

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 HKMA for its regulatory purposes, and is in accordance with the Fourth Schedule to the 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.

	2013			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	30,341	3,702	98,630	132,673
Asian countries, excluding People's Republic of China	13,125	9,155	26,314	48,594
North America	6,182	40	3,059	9,281
Western Europe	7,238	-	2,323	9,561

	2012			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	42,804	2,480	67,285	112,569
Asian countries, excluding People's Republic of China	17,941	8,570	23,401	49,912
North America	7,946	316	3,328	11,590
Western Europe	6,754	306	3,608	10,668

D. Non-bank Mainland Exposures

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

	2013			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<u>Type of counterparties</u>				
Mainland entities	210,116	62,056	272,172	107
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	47,304	4,512	51,816	7
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	30,049	442	30,491	11
Total	287,469	67,010	354,479	125

<u>Type of counterparties</u>	2012			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Mainland entities	184,652	64,253	248,905	98
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	32,777	2,669	35,446	8
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	20,065	2,630	22,695	4
Total	237,494	69,552	307,046	110

E. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

	2013		2012	
	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	216	0.1	255	0.1
- 1 year or less but over 6 months	201	0.1	181	0.0
- Over 1 year	507	0.1	220	0.1
	924	0.3	656	0.2
Rescheduled advances to customers	86	0.0	91	0.0
Total overdue and rescheduled advances	1,010	0.3	747	0.2
Secured overdue advances	777	0.2	483	0.1
Unsecured overdue advances	147	0.0	173	0.0
Market value of security held against secured overdue advances	2,736		2,026	
Individual impairment allowance made on loans overdue for more than 3 months	183		182	

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

(b) Advances to bank

	2013	2012
	HK\$ Mn	HK\$ Mn
Advances to bank overdue for		
- 6 months or less but over 3 months	-	6
- 1 year or less but over 6 months	-	-
- Over 1 year	-	-
	-	6
Rescheduled advances to bank	-	-
Total overdue and rescheduled advances	-	6

(c) Other overdue and rescheduled assets

	2013		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	-	-	-
- 1 year or less but over 6 months	-	-	-
- Over 1 year	-	-	4
	-	-	4
Rescheduled assets	-	-	-
Total other overdue and rescheduled assets	-	-	4
	2012		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	-	-	-
- 1 year or less but over 6 months	-	-	-
- Over 1 year	-	-	4
	-	-	4
Rescheduled assets	-	-	-
Total other overdue and rescheduled assets	-	-	4

* Other assets refer to trade bills and receivables.

(d) Repossessed assets

	2013	2012
	HK\$ Mn	HK\$ Mn
Reposessed land and buildings *	51	10
Reposessed vehicles and equipment	-	-
Total reposessed assets	<u>51</u>	<u>10</u>

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

* The balance included HK\$3 million (2012: Nil) relating to properties that were contracted for sale but not yet completed.

F. Currency Concentrations

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

	2013			
	HK\$ Mn			
	USD	RMB	Others	Total
Spot assets	185,817	751,286	77,208	1,014,311
Spot liabilities	(188,352)	(708,796)	(83,423)	(980,571)
Forward purchases	166,647	111,459	17,799	295,905
Forward sales	(161,663)	(153,524)	(12,039)	(327,226)
Net options position	(31)	6	(8)	(33)
Net long/(short) non-structural position	<u>2,418</u>	<u>431</u>	<u>(463)</u>	<u>2,386</u>

	2012			
	HK\$ Mn			
	USD	RMB	Others	Total
Spot assets	150,217	632,345	76,590	859,152
Spot liabilities	(156,498)	(606,456)	(77,307)	(840,261)
Forward purchases	113,306	74,073	11,656	199,035
Forward sales	(104,331)	(100,518)	(11,257)	(216,106)
Net options position	(438)	-	5	(433)
Net long/(short) non-structural position	<u>2,256</u>	<u>(556)</u>	<u>(313)</u>	<u>1,387</u>

	2013			
	HK\$ Mn			
	USD	RMB	Others	Total
Net structural position	<u>2,475</u>	<u>8,960</u>	<u>754</u>	<u>12,189</u>

	2012			
	HK\$ Mn			
	USD	RMB	Others	Total
Net structural position	<u>2,488</u>	<u>8,703</u>	<u>764</u>	<u>11,955</u>

STATEMENT OF COMPLIANCE

- (1) In preparing the accounts for 2013, the Bank has fully complied with the Banking (Disclosure) Rules.
- (2) 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.

During the financial year ended 31st December, 2013, the Bank has complied with all the Code Provisions set out in the CG Code, except for Code Provision A.2.1 as explained below.

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

Dr. the Hon. Sir David LI Kwok-po is the Chairman & Chief Executive of the Bank. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Bank. The division of responsibilities between the Chairman and the Chief Executive is clearly established and set out in the job mandate of the Chairman & Chief Executive. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals and meets regularly to discuss issues affecting operations of the Bank. There is a strong independent element in the composition of the Board. Out of the 17 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.

During the financial year ended 31st December, 2013, the Bank has followed the modules on CG-1 and CG-5.

PAYMENT OF SECOND INTERIM DIVIDEND (IN LIEU OF FINAL DIVIDEND) FOR 2013

The Board has declared a second interim dividend (in lieu of final dividend) for the year ended 31st December, 2013 ("2013 Second Interim Dividend") of HK\$0.68 per share (2012 second interim dividend (in lieu of final dividend): HK\$0.63 per share), which, together with the 2013 interim dividend of HK\$0.43 per share paid in September 2013, will constitute a total dividend of HK\$1.11 per share (2012: HK\$1.06 per share) for the full year. The 2013 Second Interim Dividend will be paid on or about Wednesday, 2nd April, 2014 in cash with an option to receive new, fully paid shares in lieu of cash, to shareholders whose names appear on the Register of Members of the Bank at the close of business on Tuesday, 11th March, 2014 ("Scrip Dividend Scheme"). Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Tuesday, 11th March, 2014.

The Scrip Dividend Scheme is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the New Shares to be issued under the Scrip Dividend Scheme. The dividend warrants and the share certificates for the Scrip Dividend Scheme will be sent to shareholders by ordinary mail on or about Wednesday, 2nd April, 2014.

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 2013 Second Interim Dividend, the Register of Members of the Bank will be closed on Monday, 10th March, 2014 and Tuesday, 11th March, 2014. In order to qualify for the 2013 Second Interim Dividend, all transfer documents should be lodged for registration with Tricor Standard Limited (Address: 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong) by 4:00 p.m. Friday, 7th March, 2014.
- (b) For the purpose of determining shareholders who are entitled to attend and vote at the 2014 AGM, the Register of Members of the Bank will be closed from Wednesday, 30th April, 2014 to Friday, 2nd May, 2014 (both days inclusive). In order to qualify for attending and voting at the 2014 AGM, all transfer documents should be lodged for registration with Tricor Standard Limited (Address: 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong) by 4:00 p.m. Tuesday, 29th April, 2014.

DEALINGS IN LISTED SECURITIES OF THE BANK

During the financial year ended 31st December, 2013, there was no purchase, sale or redemption by the Bank or any of its subsidiaries, of listed securities of the Bank.

CHAIRMAN'S STATEMENT

It is my great pleasure to report that the Group once again delivered a record set of results in 2013. Profit attributable to owners of the parent reached a new record high of HK\$6,613 million, HK\$557 million or 9.2% higher than the HK\$6,056 million earned in 2012. Basic earnings per share were HK\$2.78. Return on average equity and return on average assets were 11.0% and 0.9%, respectively.

The Board of Directors has declared a second interim dividend (in lieu of a final dividend) of HK\$0.68 per share for the year ended 31st December, 2013, bringing the dividend for the year to HK\$1.11 per share.

The overall outlook for the global economy is brightening. In January 2014, the World Bank revised its projected global growth figures for 2014 from 3.0% to 3.2%, representing a marked improvement on 2013's growth of 2.4%. Stronger global growth will benefit Hong Kong, and we anticipate that local exports will increase while consumer demand will remain solid with support from Mainland visitor spending.

While concerns remain about the potential impact of tapering in the US and uncertainty surrounding the slowing growth rate in China, we have confidence in Hong Kong's ability to prevail. The same holds true for the city's banking industry, which, while highly competitive, is well capitalised and widely recognised for its sound asset quality. We believe that the Central Government's determination to deepen financial reform is extremely positive for the country's long-term economic development, and Hong Kong is well positioned to capitalise on future developments as China's premier offshore Renminbi centre.

In Hong Kong, we at BEA will place greater emphasis on strengthening the Bank's presence in selected prime areas as part of our efforts to expand our affluent customer base. We will position ourselves to attract clients with whom we can develop a lifelong relationship as their preferred banking partner, and continue to apply technology to enhance our marketing initiatives, customer relationships, and service quality.

Mainland China has been and will remain a key focus for the Group. While the liberalisation of the financial system and the introduction of the China (Shanghai) Pilot Free Trade Zone will no doubt provide challenges as well as opportunities for the financial industry, we believe that BEA is well positioned to respond to any developments. In 2013, we refined our branch and channel strategy on the Mainland to improve efficiency and control costs. We also successfully piloted our supply chain financing programme, which will be rolled out more widely in 2014 to attract new corporate customers.

We see good prospects for our cross-border business due to the internationalisation of the Renminbi and growing activity among Mainland investors in offshore markets. We will further strengthen collaboration among our branch networks in Hong Kong, Mainland China and overseas to capture opportunities arising from increasing business flows to and from the Mainland.

Internationally, we will continue to expand our overseas businesses, particularly in Singapore and the UK, and to explore opportunities in emerging markets as they arise.

As a Group, we will focus on growth across our operations and we will implement strategies to optimise our asset and portfolio mix. At the same time, we will remain vigilant in managing our risks and strive to enhance efficiency and productivity.

I am pleased to inform shareholders that Mr. Peter Lee Ka-kit was appointed a Non-executive Director of the Bank on 1st May, 2013. In view of Mr. Lee's wealth of experience, I am confident that his contribution to the Board will lead to the further success of the Group.

In closing, I would like to thank our Bank's Board of Directors and the Directors of our subsidiaries and associated companies for their wise counsel and the care with which they have performed their duties during the past year. I also extend our grateful thanks and appreciation to our business partners, with whom we look forward to further extending our cooperation in the coming year. I would also like to thank the management team and staff of BEA for their commitment and outstanding performance. Lastly, on behalf of my entire team, I thank our shareholders and customers for their long-standing loyalty and confidence in The Bank of East Asia.

David LI Kwok-po
Chairman & Chief Executive

Hong Kong, 18th February, 2014

REPORT OF THE CHIEF EXECUTIVE AND SENIOR MANAGEMENT

FINANCIAL REVIEW

For the year 2013, the Group achieved a record high profit attributable to owners of the parent of HK\$6,613 million, representing an increase of HK\$557 million or 9.2%, compared to the HK\$6,056 million earned in 2012. Basic earnings per share were HK\$2.78. Return on average equity and return on average assets were 11.0% and 0.9%, respectively.

During 2013, the Group's net interest income increased by HK\$2,443 million, or 25.1%, to HK\$12,167 million, primarily due to growth in advances to customers and a widening of the net interest margin. Net fee and commission income rose by HK\$613 million, or 18.1%, to HK\$3,992 million. However, due to weaker performance of the investment portfolio and lower trading income compared with 2012, non-interest income dropped by 5.6% to HK\$5,086 million. Operating income increased by 14.2% to HK\$17,253 million.

Total operating expenses rose by 9.8% to HK\$9,583 million. Operating efficiency further improved as the cost-to-income ratio fell from 57.7% in 2012 to 55.5% in 2013. In China, the Business Tax and related surcharges are classed as operating expenses. If these charges are grouped under taxation, the reported cost-to-income ratio would fall from 54.2% to 51.9%.

Operating profit before impairment losses rose to HK\$7,670 million, an increase of HK\$1,286 million, or 20.1%, when compared with 2012.

Impairment losses grew by 98.6% to HK\$527 million, mainly related to loans and advances. Nevertheless, impairment losses were still at a reasonable and controllable level.

Operating profit after impairment losses was HK\$7,143 million, an increase of 16.7% or HK\$1,024 million.

Profit on disposal of subsidiaries/associates fell significantly to HK\$27 million. In 2012, the disposal of BEA's 80% interest in its US banking subsidiary generated an exceptional gain of HK\$203 million. Valuation gains on investment properties decreased to HK\$388 million. Profit on sale of fixed assets increased to HK\$164 million, mainly due to disposal of some overseas properties. Due to the strong performance of associates, the Group shared after-tax profits from associates of HK\$684 million.

After accounting for income taxes, profit after taxation rose to HK\$6,707 million, an increase of 9.0% over the HK\$6,154 million recorded in 2012. Profit attributable to owners of the parent rose to HK\$6,613 million, an increase of 9.2%.

Financial Position

Total consolidated assets of the Group stood at HK\$753,954 million at the end of 2013, an increase of 8.9% over the HK\$692,114 million at the end of 2012. Gross advances to customers rose by 15.6% to HK\$405,357 million. Total equity increased to HK\$68,234 million, up 10.7%.

Total deposits from customers grew by 7.3% to HK\$534,971 million. Demand deposits and current account balances increased by HK\$309 million, or 0.4%, compared with the balance at year-end 2012. Savings deposits increased to HK\$92,936 million, a rise of 7.4%, while time deposits increased by HK\$29,505 million, an increase of 8.6%, when compared with the figure as at 31st December 2012. Total deposit funds, comprising deposits from customers and all certificates of deposit issued, grew by 9.8% to HK\$577,900 million.

The loan-to-deposit ratio was 70.1% at the end of December 2013, 3.4 percentage points higher than the 66.7% reported at the end of 2012.

RATINGS

Standard & Poor's

The Bank of East Asia, Limited

Long-term Counterparty Credit (local and foreign currency)	A
Short-term Counterparty Credit (local and foreign currency)	A-1
Outlook	Stable

The Bank of East Asia (China) Limited

Long-term Counterparty Credit (local and foreign currency)	A
Short-term Counterparty Credit (local and foreign currency)	A-1
Outlook	Stable

Moody's Investor Service

The Bank of East Asia, Limited

Long-term Bank Deposit (local and foreign currency)	A2
Short-term Bank Deposit (local and foreign currency)	Prime-1
Bank Financial Strength	C-
Outlook	Negative

RECOGNITION

The Bank of East Asia, Limited

- "2013 Best SME's Partner Award" (for the sixth consecutive year)
- *The Hong Kong General Chamber of Small & Medium Business*
- "2013/14 Distinguished Banking & Finance Award – Outstanding Corporate Banking Services"
- *Wen Wei Po*
- "2013 RMB Business Outstanding Awards – Outstanding Innovative Products/Services – Connecting China and Hong Kong Award"
- *Metro Finance, Metro Finance Digital, and Wen Wei Po*
- BENCHMARK Wealth Management Awards 2013 "Outstanding Achiever for Customer Commitment (Retail Bank)"
- *BENCHMARK magazine*
- "The Highest Growth Rate in 2012 Cardholder Spending in Hong Kong – Winner" and "The Highest Growth Rate in 2012 Outstandings in Hong Kong – 2nd Runner Up" (for card issuance) and "The Highest Market Share in 2012 Cross-border Merchant Purchase Volume in Hong Kong – 2nd Runner Up" (for merchant acquiring)
- *MasterCard Worldwide*
- "2012 Innovative Award – Exclusive Year-Round Reward Platform" (for card issuance) and "Outstanding Acquiring Performance Award in 2012 – UnionPay Online Payment Volume" (for merchant acquiring)
- *UnionPay International*
- "Risk Management Best Fraud Control, Issuing" (for card issuance) and "Lowest Non-Fraud Chargeback Rate, Acquirer – Visa 2012 Global Service Quality Performance Awards" (for merchant acquiring)
- *Visa Inc.*

The Bank of East Asia (China) Limited

- "2012 Best Customer Service Centre among Banking Institutions in Shanghai"
- *Shanghai Banking Association*
- "2012 Preferred Service Provider for Small and Medium Enterprises in China"
- *China Centre for the Promotion of Small and Medium Enterprise Development, Ministry of Industry and Information Technology of the People's Republic of China*
- "2012 Best Innovation Award for the Promotion of Financial Knowledge in China's Banking Industry"
- *China Banking Association*
- "Best Brand Building among Foreign Banks" in the 2013 Golden-shell Award of China Programme
- *21st Century Business Herald*
- "Best Internet Banking among Foreign Banks Award" in the China Business News Financial Value Ranking 2013
- *China Business News*
- "2013 Best Wealth Management Product Design Award"
- *Money Weekly*
- "2013 Best Wealth Management Bank Award"
- *SOHU.com*

Blue Cross (Asia-Pacific) Insurance Limited

- “The 13th Capital Outstanding Enterprise Awards – Medical and General Insurance” (for the second consecutive year)
- *CAPITAL magazine*
- BENCHMARK Wealth Management Awards 2013 “Best in Class for Health Care Product (Insurance)”, “Best in Class for Product and Service Innovation (Insurance)”, and “Outstanding Achiever for Online Usability (Insurance)”
- *BENCHMARK magazine*
- “The Most Favourite Travel Insurance Company Award 2013” (for the ninth consecutive year)
- *Weekend Weekly Magazine*

Credit Gain Finance Company Limited

- “Prime Awards for Banking and Finance Corporations 2013 – The Best Brand in Loans”
- *MetroBox Magazine*
- “Capital Weekly Service Awards 2013 – Finance Service”
- *Capital Weekly Magazine*

BEA Union Investment Management Limited

BEA Union Investment Asian Bond and Currency Fund:

- “Best Bond Fund, Asia Pacific” (3-year performance)
- *Lipper Fund Awards Programme 2013 Hong Kong*
- “2012 Best of the Best Performance Awards – Asian Bonds, Hard Currency” (3-year performance)
- *Asia Asset Management*
- “AsianInvestor Investment Performance Awards 2013 – Best Asian Fixed Income, US Dollar”
- *AsianInvestor*
- “FSM Recommended Mutual Fund Awards 2013/14 – Asian Fixed Income”
- *FundsUPERMART.com*
- “BENCHMARK Fund of the Year Awards 2013: Asia Fixed Income within Funds Awards, Best-In-Class”
- *BENCHMARK magazine*

BEA (MPF) Greater China Equity Fund:

- “BENCHMARK Fund of the Year Awards 2013: Greater China Equity within MPF Awards, Best-In-Class”
- *BENCHMARK magazine*

OPERATIONS REVIEW

The global economy turned in a mixed performance in 2013. While the US gained momentum, conditions in Europe remained weak. China’s economy stabilised in the second half of 2013, as domestic demand strengthened on the back of the government’s stimulus measures. Emerging markets, on the other hand, weakened due to lower commodity prices and speculation over the US Federal Reserve’s plan to scale back its quantitative easing policies.

With external demand weak, Hong Kong’s exports grew at a modest 3.6% pace in 2013. The number of residential property transactions plummeted by 37.7%, following the introduction of a series of cooling measures by the Hong Kong Government.

However, domestic demand and tourist spending remained firm. As a result, Hong Kong’s unemployment rate hovered at a low level of 3.2% to 3.5%. These factors boosted private consumption, and retail sales grew by 11% in 2013. Overall, Hong Kong’s economy expanded at a moderate pace of 3%, year on year, in the first three quarters.

On the Mainland, the export sector remained weak in the face of continuing subdued demand from Western economies and the slowdown in emerging markets in 2013. Investment growth also moderated, as China continued its shift away from an investment-led growth model. However, an improvement in the US employment market in the fourth quarter supported business confidence in China. This trend should persist in 2014, compensating for the adverse impact on Asian markets of the scaling back of quantitative easing.

Looking ahead, the Chinese Government is expected to take advantage of the relative stability in the global economic environment to tackle structural problems in its economy. As part of this effort, the Third Plenary Session of the 18th Central Committee of the Communist Party of China in November 2013 outlined a package of ambitious reforms, several of which are aimed at fostering more effective and efficient financial markets. Implementation of these reforms will be a priority in 2014.

As the pace of the US economic recovery gathers steam, economic conditions on the Mainland should improve further. China's exports are projected to grow by 10% in 2014. However, credit growth will be restricted, and will serve as a brake on investment growth, diluting the positive impact of improving exports. Consumer demand will remain moderate. The economy is likely to grow by 7.6% in 2014, with inflation remaining under control at 2.8%.

In Hong Kong, meanwhile, GDP is forecast to grow at 3.5% for 2014, while inflation will average 3.7%.

Business – Hong Kong

As at 31st December, 2013, the aggregate value of all loans to customers and trade bills of BEA in Hong Kong was 14.2% higher than one year earlier. Debt investments increased by 0.2% during the year, while customer deposits grew by 4.4%.

Corporate and Commercial Banking

BEA increased its portfolio of corporate loans and trade bills by 13.2% in 2013, driving a 75.3% increase in net interest income compared to the previous year. Net fee and commission income rose by 31.3%, as the Bank successfully executed its strategy to cross-sell treasury and insurance products to corporate customers.

Cross-border business remained a key driver of income growth. In 2013, BEA created a dedicated department to focus on the development of cross-border business, and on the regions and industries with the greatest potential nationwide. This further enhanced collaboration with The Bank of East Asia (China) Limited, the Bank's wholly-owned subsidiary on the Mainland, and helped drive growth in the trade bills portfolio. As a result of these efforts, and underpinned by rising external trade, the Going Out policy, and the cost benefit of financing in Hong Kong, the Bank was well-positioned to take advantage of strong demand from Chinese corporations.

BEA remained active in lending to Hong Kong customers, despite a subdued domestic borrowing environment. The Bank saw steady demand from local property developers and also focused on co-arranging club deal facilities for blue-chips and mid-cap companies, which generally commanded better pricing than traditional syndicated loans.

Wealth Management

In 2013, BEA's private banking business achieved solid growth in total operating income through a 60.9% increase in net interest income and a 25.5% rise in net fee and commission income. Meanwhile, assets under management notched up growth of 14.7%, even in the face of a general deleveraging among clients.

Hong Kong is increasingly the investment destination of choice for wealthy Mainland Chinese. Mainland customers account for 30% of the Bank's private banking client base, and this figure is expected to keep rising given China's gradual economic opening and the ongoing internationalisation of the Renminbi. The Bank increased its sales capabilities in 2013 by recruiting staff to focus on both the Mainland and Taiwanese markets, and will continue to explore new avenues to leverage its extensive network on the Mainland to drive business.

In terms of products, 2013 saw strong unit trust sales, indicating an increased appetite for this asset class among retail investors, which bodes well for fee and commission income. At the same time, the Bank enhanced its foreign exchange capabilities and achieved good growth in sales of related products. Looking forward, the Bank will keep designing product offerings to match market demand, and will launch more RMB products in Hong Kong as opportunities arise.

BEA's private trust business also had a decent year, recording growth of 10.8% in the number of clients and 13.9% in assets under management.

Retail Banking

During 2013, BEA's personal banking operations generated a 23.7% increase in net fee and commission income while growing current and savings account balances. Growth in consumer loans, property loans and credit card advances was strong. Meanwhile, BEA maintained an overall fifth place ranking in new mortgage loan registrations in 2013, improving its share to 8.3% in the final quarter versus 4.0% over the first nine months of the year.

The Bank's focus remains on expanding its affluent customer base, particularly through the SupremeGold service, which is a significant contributor to the Bank's deposit base and profitability. The number of SupremeGold accounts increased by 21.3% during the year, and the Bank aims to further strengthen its position in the market by enhancing the SupremeGold brand and value proposition in 2014.

As part of the drive to further extend its appeal among the affluent, the Bank will aim to increase its presence in prime areas and roll out a new retail branch model. This model, which was first introduced at ifc mall in January 2014, uses the latest technology to provide innovative banking services and greater convenience to customers.

BEA's online presence also continues to expand, and in 2013 the Bank's two Facebook pages increased fans to over 100,000 while attaining one of the highest social network engagement rates among local banks. BEA uses e-marketing as a cost effective channel to promote loans, credit cards and insurance, and in 2013 successfully employed a new strategy of micro-targeting Facebook advertisements to grow credit card applications. Going forward, BEA will continue to apply technology to strengthen its relationships with customers, expand its services and stay at the forefront of modern banking.

Insurance and MPF Services

BEA's insurance business is an important contributor to the Bank's non-interest income, and the business recorded yet another year of steady gains in 2013. The Bank's wholly-owned life insurance arm, BEA Life Limited, increased new premium income by 13.7%. Its wholly-owned general insurance arm, Blue Cross (Asia-Pacific) Insurance Limited, grew total premium income by 11.0%, primarily driven by medical insurance income, which rose by 11.7%.

Premium income earned through Blue Cross' e-platform increased by 24.5% during the year, illustrating a migration to electronic channels that is expected to continue. Blue Cross actively designs products in response to the changing requirements of society, and will expand its range of healthcare plans to meet the needs of Hong Kong's ageing population, society's growing focus on health and well-being, and government healthcare reform measures.

The Bank's MPF business continued to perform well in 2013, with total membership of BEA MPF schemes exceeding 570,000, and assets under management rising 12.3% to HK\$17.2 billion. Meanwhile, the competitive position of the Bank's Master Trust schemes was enhanced through a reduction in fees. BEA's Industry Scheme maintained its leadership with a 66.7% market share, growing members by 7.7% and assets under management by 16.7%.

Going forward, the Bank will make continuous efforts to capture new business and consolidate its leading position in the Industry Scheme, and will strive to strengthen inflows to MPF schemes by way of special voluntary contributions through the promotion of retirement planning among customers.

Broking Operations

Despite periods of volatility, the world's major stock markets generally trended upwards in 2013, buoyed by continued quantitative easing by central banks. However, markets did experience a setback in the second quarter on news that the US Federal Reserve might retreat from its bond purchase programme earlier than expected.

BEA's broking operations staged a strong recovery in 2013 as activity in the local market picked up on better sentiment. Revenue grew strongly, particularly from stockbroking activity, on higher average daily turnover on the Stock Exchange. Renewed interest in initial public offerings also lifted interest income from staggings as well as margin loans. Meanwhile, BEA's newly launched bullion operation performed in line with expectations and enabled the Bank to successfully build a solid customer base during the year. Prudent measures to control costs coupled with decent revenue growth lifted pre-tax profit by more than 140%.

The outlook for 2014 is cautiously optimistic, although volatility is expected depending on the timing and degree of any tapering of the quantitative easing policy in the US. The Bank's broking operations will continue to capitalise on the marketing campaigns that it launched in 2013 to enlarge its customer base, and it will also focus on enhancing its product offering via different channels to increase market share.

Business – Greater China ex-Hong Kong

Mainland China Operations

In 2013, China's GDP growth rate and CPI stood at 7.7% and 2.6%, respectively, the same levels as in 2012.

The People's Bank of China maintained a prudent monetary policy throughout the year and actively promoted the allocation of financial resources to better support the real economy, especially lending to micro and small enterprises.

In January 2013, PBOC raised the capital requirements for commercial banks operating on the Mainland. PBOC also took further steps toward interest rate liberalisation, removing controls on lending interest rates in July 2013 and launching the Loan Prime Rate Centralised Quote and Publish Mechanism in October 2013. These measures had the effect of further narrowing the net interest margin ("NIM") of banks operating in Mainland China.

Despite these market and regulatory challenges, BEA China improved its NIM during the year by strictly implementing strategies aimed at optimising its asset/liability mix. Furthermore, BEA China posted a 12.7% rise in total loans during the year, taking the total outstanding to HK\$144.2 billion. Total deposits rose by 10.3% when compared with 2012, to HK\$211.8 billion. Net profit improved by 15.6%, to HK\$1,887.9 million.

Slowing growth, over-capacity, and excessive borrowing by some industries on the Mainland put pressure on the country's banking sector to control credit risk in 2013. Weathering these unfavourable conditions, BEA China's asset quality remained at an acceptable level. The impaired loan ratio rose to 0.49% at the end of 2013, compared with 0.27% at the end of 2012.

In early 2013, BEA China created a new team to promote supply chain financing business. This addition to BEA China's product range enabled it to expand its customer reach and command higher interest margins. BEA China will continue to promote supply chain financing in 2014, extending the coverage to more industries. At the same time, BEA China will further develop its offering, to provide integrated cross-border financial services for both trade and non-trade transactions so as to meet clients' growing needs in overseas acquisitions and business expansion.

BEA China also focused on enhancing the profitability of its retail banking business in 2013. By broadening its product range, expanding its retail customer base, and increasing the productivity of its frontline sales staff, BEA China recorded a rise of 53.0% in fee income from retail business in 2013 compared to the previous year.

The Outlet Repositioning Programme proceeded as planned during the year, driving higher profitability of the branch network. BEA China will continue to reallocate its branch resources and refine its services based on the location and customer profile of each outlet, in order to optimise the business potential of its branch network.

During the period under review, BEA China stepped up efforts to develop high-yield retail loans such as micro-financing loans, auto loans, and credit card instalment loans. As at the end of 2013, retail loans accounted for 22.6% of BEA China's total loan portfolio, up from 20.6% in 2012.

In May 2013, the State Administration of Foreign Exchange granted BEA China the right to conduct RMB and foreign currency swap business for clients, further broadening the range of treasury products offered. Efforts by BEA China to diversify its product range and strengthen its marketing programmes resulted in an increase in the number of corporate customers engaging in treasury transactions.

In June 2013, BEA China became one of the first locally-incorporated foreign banks to be granted a local fund distribution licence. This licence will enable BEA China to offer a greater range of wealth management products to its clients. BEA China also launched a number of new products and services during the year, including integrated circuit cards and Supreme Account services.

BEA China opened two new branches in 2013, in Jinan and Wuxi, and 11 new sub-branches including six "cross-location" sub-branches in Guangdong Province. As at 31st December, 2013, BEA China operated 27 branches and 98 sub-branches in major urban centres nationwide.

In addition to the BEA China network, BEA operates a representative office in Fuzhou, and a rural bank in Fuping County, Shaanxi Province. With 128 outlets in 42 cities, BEA and BEA China together operate one of the most extensive networks of any foreign bank on the Mainland.

Macau and Taiwan Operations

BEA operates a branch and 4 sub-branches in Macau. During the year under review, BEA Macau's retail deposits grew by 15.5%, year on year. In addition, BEA Macau successfully increased its penetration into the local enterprise market, thereby diversifying its customer portfolio.

BEA Macau registered a 122.7% rise in net profit for 2013, recording its strongest performance since the unit was established in 2001. The exceptional rise in profit was largely due to an increase in the sale of cross-border banking products, which allowed BEA Macau to command higher yields.

In Taiwan, BEA operates two branches, one each in Taipei and Kaohsiung, as well as an Offshore Banking Unit through which it provides a wide range of foreign currency services to offshore clients. In February 2013, Taiwan Branches' Domestic Banking Unit launched RMB services to serve the RMB financing needs of local companies in Taiwan. Going forward, the services will facilitate cross-strait business cooperation with BEA China. The Taiwan Branches also increased their participation in syndicated loans for non-Taiwanese corporations.

Healthy revenue coupled with strict cost control resulted in a 12.6 percentage point drop in the Taiwan Branches' cost-to-income ratio, from 49.4% in 2012 to 36.8% in 2013. Net profit for 2013 rose by 94.0%, which is the highest increase recorded since the establishment of BEA's operations in Taiwan in 1997.

Business – International

BEA's international operations recorded another solid year in 2013.

Driven by growth in cross-border loans arranged in collaboration with BEA China and the extension of its syndicated loan business to all of Southeast Asia, BEA's Singapore Branch registered a strong 43% rise in loan assets during 2013.

Looking ahead, Singapore Branch will continue to leverage its strong presence in Southeast Asia and BEA's extensive network in China to capture new business opportunities arising from robust trade and investment flows between China and member states of the Association of Southeast Asian Nations ("ASEAN"). In addition, the Branch will step up efforts to provide financing to well-established SMEs in Singapore, and syndicated loans to top-tier ASEAN corporations.

The Bank's operations in the United Kingdom also registered strong growth in loan assets and profit in 2013. This was largely due to robust demand from investors in Hong Kong and other Asian markets for residential and commercial properties in the UK, particularly in prime London locations. In May 2013, the Bank opened its Manchester Branch to better serve customers in northwestern England. The Bank now has a strategic foothold in the 3 largest cities in the UK, namely London, Birmingham, and Manchester.

Against the backdrop of a recovering economy, BEA's operations in the US achieved healthy growth in loan assets and profit during the year, due in large part to ample liquidity and the low cost of funding in the market. BEA's US asset quality further improved as compared to the end of 2012.

In an effort to strengthen its profile in the US wholesale banking market, BEA relocated its New York Branch from Manhattan's Chinatown to a more prominent and accessible location in Midtown in May 2013. Going forward, the Bank will continue its strategy to pursue wholesale and corporate banking business, and expand its corporate and syndicated lending portfolio in the US.

Other Subsidiaries

Credit Gain Finance Company Limited

In the face of intense competition in Hong Kong's sub-prime loan market, Credit Gain Finance Company Limited nonetheless achieved double-digit year-on-year growth in its loan portfolio in 2013. The Company's success can largely be attributed to its flexible business strategies, diversified sales and marketing channels, and the quality of its customer service. Looking ahead, Credit Gain will continue to enhance the value of its services and build its brand in the local personal loan market. Looking beyond the mature Hong Kong market, the Company aims to capitalise on the great potential of the Mainland market by establishing a presence in major cities nationwide. Credit Gain took its first step in 2013 by opening two offices in Shenzhen and plans to extend its coverage to Chongqing in 2014.

Tricor Holdings Limited

For a fourth consecutive year, Tricor Holdings Limited reported record-high revenue, which totalled HK\$1,074 million. During the year, there was strong demand for Tricor's company secretarial and compliance services from corporate entities, particularly listed issuers. In addition, Tricor's investor services practice secured the share registration work of 45% of all newly listed companies in Hong Kong. However, an increase in staff and operating costs together with one-off expenses incurred in relocating the Hong Kong office put pressure on Tricor's profit margin during the year under review.

Tricor took the opportunity of the relocation of its Hong Kong offices to Hopewell Centre in September 2013 to upgrade office facilities and consolidate various operating units under one roof. The new office premises also provide Tricor Hong Kong with room for future expansion. During the year, Tricor acquired a 30% interest in International Outsourcing Inc., a reputable, well established professional services firm in Korea, to further enhance the Company's servicing capabilities in Asia. With the addition of the Korean office, Tricor now operates a network covering 29 cities in 16 economies throughout Asia and other parts of the world.

BEA Union Investment Management Limited

BEA Union Investment Management Limited registered 8% growth in assets under management in 2013. This growth was mainly due to the Company's success in both the retail and institutional business.

Looking ahead to 2014, BEA Union Investment will explore distribution opportunities in China via the Hong Kong/China "mutual fund recognition" platform, which allows authorised Hong Kong and Mainland funds to be sold directly in both markets.

Our People

As of 31st December, 2013, the BEA Group employed 12,698 people:

	As at 31 st December, 2013	As at 31 st December, 2012
Hong Kong	5,757	5,692
Greater China ex-Hong Kong	5,773	5,608
Overseas	1,168	1,141
Total	12,698	12,441

Competition for talent remained intense in Hong Kong's employment market throughout 2013. To attract and retain high calibre manpower, the Bank focused on providing attractive remuneration and benefits packages, as well as opportunities for career advancement and a healthy, positive working environment. The Bank offers 2 trainee programmes for new graduates, the Management Trainee Programme and the Retail Management Trainee Programme. To ensure quality operations support, BEA also established a new Operations Trainee Programme in 2013 to groom future leaders of the Bank's back-end operations.

In April 2013, the Bank launched a new Human Capital Management System, "myHR", to enhance efficiency in the workplace. myHR is an integrated platform that allows staff members to view and manage their personal information securely online. The Bank also continued to offer staff members a wide range of training courses to support their ongoing professional development. In addition to regular in-house programmes, the Bank collaborated with university professors and external training consultants to design and organise customised training courses during the year.

Risk Management

The Group has established comprehensive risk management procedures in line with the requirements set out by the HKMA to identify, measure, monitor, control, and report on the various types of risk that the Group faces, including credit risk, interest rate risk, market risk, liquidity risk and operational risk, and, where appropriate, to allocate capital to cover those risks.

To further enhance the Group's risk management framework, and in line with the best practices encouraged by the HKMA, the Group established the Risk Committee in 2013. The Risk Committee comprises the Group's Chairman & Chief Executive, two Independent Non-executive Directors, and two Non-executive Directors. One of the major responsibilities of the Risk Committee is to manage risks associated with strategic issues of the Group. The Risk Committee is also responsible for the regular review of the Group's risk appetite statement before its submission to the Board of Directors for final review and approval. The related risk levels, where appropriate, are laid down in the risk management policies.

The risk management mechanisms are built around a centralised framework and include the Risk Committee, Crisis Management Committee, Risk Management Committee, specialised risk management committees – namely, Credit Committee, Asset and Liability Management Committee and Operational Risk Management Committee – and the Risk Management Division. These mechanisms capture the different risk-related management activities on a Group basis, including the formulation of policies, risk assessment, setting up of procedures and control limits, and ongoing monitoring before the same are reported to the Board of Directors. The mechanisms ensure compliance with the Group's policies, and legal and regulatory requirements in Hong Kong, China, and overseas. They are supplemented by active management involvement, effective internal controls, and comprehensive audits.

Certificates of Deposit and Debt Securities Issued and Loan Capital

In 2013, BEA issued floating rate certificates of deposit and debt securities with a face value of HK\$1,108 million and US\$563 million; fixed rate certificates of deposit and debt securities with a face value of HK\$2,555 million, US\$921 million, CNY7,702 million, GBP1,463 million, and SGD103 million; and zero coupon certificates of deposit and debt securities with a face value of HK\$7,203 million, US\$2,331 million, CNY910 million, GBP50 million, EUR32 million, CHF115 million, JPY5,000 million, and SGD27 million. The Group redeemed a quantity of certificates of deposit and debt securities amounting to HK\$60,735 million equivalent upon maturity.

At the end of December 2013, the face value of the outstanding certificates of deposit and debt securities issued was equivalent to HK\$47,713 million, with a carrying amount equivalent to HK\$47,657 million.

Maturity Profile of Certificates of Deposit and Debt Securities Issued

As at 31st December, 2013

(All expressed in millions of dollars)

	Total Face Value	Year of Maturity			
		2014	2015	2016	2017
Floating Rate					
HKD	1,573	268	385	920	
USD	810	689	111	10	
Fixed Rate (Note)					
HKD	4,203	1,260	1,019	1,790	134
USD	625	605		20	
CNY	7,936	5,906	2,030		
GBP	223	223			
SGD	68	68			

Zero Coupon

HKD	3,886	3,886			
USD	1,375	1,325	50		
CNY	1,025	770			255
EUR	32	32			
CHF	115	115			
SGD	27	27			

Total Certificates of Deposit and Debt Securities issued in HKD equivalent

47,713	39,059	5,251	2,942	461
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Note:

Associated interest rate swaps have been entered for managing interest rate risk along with long-term Certificates of Deposit and debt securities if deemed necessary

At the end of December 2013, the face value of the outstanding loan capital issued was equivalent to HK\$13,433 million, with a carrying amount equivalent to HK\$13,632 million.

Maturity Profile of Loan Capital

As at 31st December, 2013

(All expressed in millions of dollars)

	Total Face Value	Year of Maturity	
		2020	2022
USD (Note 1)	1,100	600	500
SGD (Note 2)	800		800
Total Loan Capital issued In HKD equivalent	13,433	4,652	8,781

Notes:

1. The US\$500 million loan capital that matures in 2022 will be callable on 4th May, 2017.
2. Callable on 13th September, 2017

David LI Kwok-po

Chairman & Chief Executive

Hong Kong, 18th February, 2014

As at the date of this announcement, the Board comprises Dr. the Hon. Sir David LI Kwok-po (Chairman & Chief Executive), Professor Arthur LI Kwok-cheung* (Deputy Chairman), Dr. Allan WONG Chi-yun** (Deputy Chairman), Mr. WONG Chung-hin**, Mr. Aubrey LI Kwok-sing*, Mr. Winston LO Yau-lai**, Tan Sri Dr. KHOO Kay-peng**, Dr. Thomas KWOK Ping-kwong**, Mr. Richard LI Tzar-kai*, Mr. Kenneth LO Chin-ming**, Mr. Eric LI Fook-chuen*, Mr. Stephen Charles LI Kwok-sze*, Mr. William DOO Wai-hoi**, Mr. KUOK Khoon-ean**, Mr. Valiant CHEUNG Kin-piu**, Dr. Isidro FAINÉ CASAS* and Mr. Peter LEE Ka-kit*.

* Non-executive Directors

** Independent Non-executive Directors

GLOSSARY

2014 AGM	Annual General Meeting of the Bank to be held on Friday, 2 nd May, 2014 at 11:30 a.m. in the Grand Ballroom, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong
Bank or BEA	The Bank of East Asia, Limited
Banking Ordinance	Hong Kong Banking Ordinance
BEA China	The Bank of East Asia (China) Limited, a wholly-owned subsidiary of the Bank
BEA Life	BEA Life Limited, a wholly-owned subsidiary of the Bank
BEA Macau	The Bank's branch operations in Macau
BEA Union	BEA Union Investment Management Limited, a non-wholly-owned subsidiary of the Bank
Blue Cross	Blue Cross (Asia-Pacific) Insurance Limited, a wholly-owned subsidiary of the Bank
Board	Board of Directors of the Bank
Capital Rules	Banking (Capital) Rules issued by the HKMA
CG Code	Corporate Governance Code and Corporate Governance Report, Appendix 14 of the Listing Rules
CG-1	Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorized Institutions, issued by the HKMA
CG-5	Supervisory Policy Manual CG-5 on Guideline on a Sound Remuneration System, issued by HKMA
CHF	Swiss franc
China or Mainland or Mainland China or PRC	People's Republic of China
CNY	Chinese yuan, the ISO standard currency code for the lawful currency of the PRC
CPI	Consumer price index
Credit Gain	Credit Gain Finance Company Limited, a wholly-owned subsidiary of the Bank
EUR	Euro
GBP	Pound sterling
GDP	Gross domestic product
Group or BEA Group	The Bank of East Asia Group
HK\$ or HKD	Hong Kong dollar
HKEx	Hong Kong Exchanges and Clearing Limited
HKMA	Hong Kong Monetary Authority
Hong Kong or HK	Hong Kong Special Administrative Region
JPY	Japanese yen
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
MPF	Mandatory Provident Fund
PBOC	The People's Bank of China
RIC	Risk Committee of the Bank
RMB	Renminbi
SGD	Singapore dollar
SMEs	Small and medium-sized enterprises
Stock Exchange	The Stock Exchange of Hong Kong Limited
Taiwan Branches	The Bank's branch operations in Taiwan
Tricor	Tricor Holdings Limited, a non-wholly-owned subsidiary of the Bank
UK	United Kingdom
US	United States of America
US\$ or USD	United States dollar