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The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

ANNOUNCEMENT OF 2011 FINAL RESULTS

SUMMARY OF RESULTS

The Directors of The Bank of East Asia, Limited (“BEA” or the “Bank”) are pleased to announce the audited results^a of the Bank and its subsidiaries (the “Group”) for the year ended 31st December, 2011. 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 2011 annual accounts.

1. Consolidated Income Statement

| | 2011 HK\$ Mn | 2010 HK\$ Mn | | Variance % |
|---|-----------------|-----------------|---|---------------|
| Interest income | 20,868 | 13,626 | + | 53.1 |
| Interest expense | (11,605) | (6,083) | + | 90.8 |
| Net interest income | 9,263 | 7,543 | + | 22.8 |
| Fee and commission income | 4,105 | 3,649 | + | 12.5 |
| Fee and commission expense | (763) | (707) | + | 8.0 |
| Net fee and commission income | 3,342 | 2,942 | + | 13.6 |
| Net trading loss | (117) | (146) | - | 19.9 |
| Net result from financial instruments designated at fair value through profit or loss | (354) | 263 | - | 234.7 |
| Net hedging loss | (5) | (5) | + | 13.5 |
| Other operating income | 586 | 529 | + | 10.8 |
| Non-interest income | 3,452 | 3,583 | - | 3.7 |
| Operating income | 12,715 | 11,126 | + | 14.3 |
| Operating expenses | (7,992) | (6,904) | + | 15.8 |
| Operating profit before impairment losses | 4,723 | 4,222 | + | 11.8 |
| Impairment losses on loans and advances | (75) | (285) | - | 73.7 |
| Impairment losses on held-to-maturity investments | (11) | - | + | 2,379.6 |
| Impairment losses on available-for-sale financial assets | (49) | (24) | + | 100.9 |
| Write back of impairment losses on associates | - | 1 | - | 100.0 |
| Write back of impairment losses on bank premises | - | 2 | - | 100.0 |
| Impairment losses | (135) | (306) | - | 56.1 |
| Operating profit after impairment losses | 4,588 | 3,916 | + | 17.2 |
| Net profit on sale of available-for-sale financial assets | 59 | 234 | - | 74.6 |
| Net profit on sale of loans and receivables | 3 | 1 | + | 432.4 |
| Net profit on sale of subsidiaries/associates | 122 | 238 | - | 48.8 |
| Net profit/(loss) on sale of fixed assets | 140 | (6) | + | 2,476.5 |
| Valuation gains on investment properties | 404 | 426 | - | 5.2 |
| Share of profits less losses of associates | 435 | 341 | + | 27.4 |
| Profit for the year before taxation | 5,751 | 5,150 | + | 11.7 |
| Income tax | | | | |
| Current tax ^b | | | | |
| - Hong Kong | (128) | (416) | - | 69.1 |
| - Outside Hong Kong | (855) | (557) | + | 53.5 |
| Deferred tax | (317) | 126 | + | 352.0 |
| Profit for the year after taxation | 4,451 | 4,303 | + | 3.4 |
| Attributable to: | | | | |
| Owners of the parent | 4,358 | 4,224 | + | 3.2 |
| Non-controlling interests | 93 | 79 | + | 17.8 |
| Profit after taxation | 4,451 | 4,303 | + | 3.4 |
| Per share | | | | |
| - Basic earnings ^c | HK\$1.96 | HK\$1.92 | + | 2.08 |
| - Diluted earnings ^c | HK\$1.96 | HK\$1.92 | + | 2.08 |
| - Dividends | HK\$0.94 | HK\$0.94 | - | - |

2. Consolidated Statement of Comprehensive Income

| | <u>2011</u> | <u>2010</u> | <u>Variance</u> | |
|--|--------------|--------------|-----------------|-------|
| | HK\$ Mn | HK\$ Mn | | % |
| Net profit | <u>4,451</u> | <u>4,303</u> | + | 3.2 |
| Other comprehensive income for the year (after taxation and reclassification adjustments): | | | | |
| Premises: | | | | |
| - unrealised surplus on revaluation of premises | 16 | 40 | - | 60.2 |
| - deferred taxes | 3 | (2) | + | 236.1 |
| - exchange differences | (3) | 3 | - | 179.9 |
| Available-for-sale investment revaluation reserve: | | | | |
| - fair value changes recognised (from)/to equity | (326) | 91 | - | 456.3 |
| - fair value changes reclassified from/(to) income statement: | | | | |
| - on impairment and amortisation | 55 | 24 | + | 114.3 |
| - on disposal | 5 | (200) | + | 102.7 |
| - deferred taxes | 35 | 57 | - | 38.7 |
| Share of changes in equity of associates | 7 | 36 | - | 82.9 |
| Exchange differences on other reserves | 82 | 50 | + | 61.1 |
| Exchange differences on translation of: | | | | |
| - accounts of overseas branches, subsidiaries and associates | <u>452</u> | <u>769</u> | - | 41.1 |
| Other comprehensive income | <u>326</u> | <u>868</u> | - | 62.4 |
| Total comprehensive income | <u>4,777</u> | <u>5,171</u> | - | 7.6 |
| Total comprehensive income attributable to: | | | | |
| Owners of the parent | 4,684 | 5,092 | - | 8.0 |
| Non-controlling interests | <u>93</u> | <u>79</u> | + | 17.8 |
| | <u>4,777</u> | <u>5,171</u> | - | 7.6 |

3. Consolidated Statement of Financial Position

| | 2011 | 2010 | Variance | |
|--|----------------|----------------|----------|-------------|
| | HK\$ Mn | HK\$ Mn | | % |
| ASSETS | | | | |
| Cash and balances with banks and other financial institutions | 71,761 | 48,293 | + | 48.6 |
| Placements with banks and other financial institutions | 62,057 | 58,197 | + | 6.6 |
| Trade bills | 36,823 | 18,548 | + | 98.5 |
| Trading assets | 5,600 | 5,845 | - | 4.2 |
| Financial assets designated at fair value through profit or loss | 16,663 | 16,192 | + | 2.9 |
| Advances to customers and other accounts | 347,950 | 320,040 | + | 8.7 |
| Available-for-sale financial assets | 44,910 | 40,779 | + | 10.1 |
| Held-to-maturity investments | 4,587 | 5,714 | - | 19.7 |
| Investments in associates | 3,820 | 3,573 | + | 6.9 |
| Fixed assets | 12,639 | 12,414 | + | 1.8 |
| - Investment properties | 2,940 | 2,574 | + | 14.2 |
| - Other property and equipment | 9,699 | 9,840 | - | 1.4 |
| Goodwill and intangible assets | 4,215 | 4,188 | + | 0.7 |
| Deferred tax assets | 377 | 410 | - | 8.0 |
| Total Assets | 611,402 | 534,193 | + | 14.5 |
| EQUITY AND LIABILITIES | | | | |
| Deposits and balances of banks and other financial institutions | 15,923 | 9,994 | + | 59.3 |
| Deposits from customers | 467,354 | 419,833 | + | 11.3 |
| Trading liabilities | 4,548 | 3,101 | + | 46.7 |
| Certificates of deposit issued | 11,483 | 5,586 | + | 105.6 |
| - At fair value through profit or loss | 5,272 | 2,754 | + | 91.4 |
| - At amortised cost | 6,211 | 2,832 | + | 119.3 |
| Current taxation | 473 | 618 | - | 23.4 |
| Debt securities issued (at amortised cost) | 6,393 | 4,950 | + | 29.2 |
| Deferred tax liabilities | 461 | 214 | + | 115.6 |
| Other accounts and provisions | 35,982 | 28,561 | + | 26.0 |
| Loan capital | 16,741 | 12,693 | + | 31.9 |
| - At fair value through profit or loss | 3,178 | 3,548 | - | 10.4 |
| - At amortised cost | 13,563 | 9,145 | + | 48.3 |
| Total Liabilities | 559,358 | 485,550 | + | 15.2 |
| Share capital | 5,190 | 5,105 | + | 1.7 |
| Reserves | 42,426 | 39,138 | + | 8.4 |
| Total equity attributable to owners of the parent | 47,616 | 44,243 | + | 7.6 |
| Non-controlling interests | 4,428 | 4,400 | + | 0.6 |
| Total Equity | 52,044 | 48,643 | + | 7.0 |
| Total Equity and Liabilities | 611,402 | 534,193 | + | 14.5 |

4. Consolidated Statement of Changes in Equity

| | Share capital | Share premium | Capital reserve – staff share options issued | Exchange revaluation reserve | Investment revaluation reserve | Revaluation reserve of bank premises | Capital reserve | General reserve | Other reserves | Retained profits | Total | 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, 2011 | | | | | | | | | | | | | |
| - As previously reported | 5,105 | 9,331 | 165 | 1,938 | 258 | 1,023 | 86 | 15,453 | 2,043 | 8,841 | 44,243 | 4,400 | 48,643 |
| - Reclassification from general reserve to share premium | - | 2,181 | - | - | - | - | - | (2,181) | - | - | - | - | - |
| - As restated | 5,105 | 11,512 | 165 | 1,938 | 258 | 1,023 | 86 | 13,272 | 2,043 | 8,841 | 44,243 | 4,400 | 48,643 |
| Changes in equity | | | | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | - | - | - | 4,358 | 4,358 | 93 | 4,451 |
| Other comprehensive income | - | - | - | 452 | (231) | 16 | - | - | 89 | - | 326 | - | 326 |
| Total comprehensive income | - | - | - | 452 | (231) | 16 | - | - | 89 | 4,358 | 4,684 | 93 | 4,777 |
| Shares issued in lieu of dividend | 77 | 416 | - | - | - | - | - | 441 | - | - | 934 | - | 934 |
| Shares issued under Staff Share Option Schemes | 8 | 85 | - | - | - | - | - | - | - | - | 93 | - | 93 |
| Equity settled share-based transaction | - | - | 20 | - | - | - | - | - | - | - | 20 | - | 20 |
| Transfer | - | 24 | (45) | - | - | (7) | - | 31 | 70 | (73) | - | - | - |
| Dividends declared or approved during the year | - | - | - | - | - | - | - | - | - | (2,358) | (2,358) | (61) | (2,419) |
| Purchase of interests in businesses from non-controlling interests investors | - | - | - | - | - | - | - | - | - | - | - | 2 | 2 |
| Exchange adjustments | - | - | - | - | - | - | - | - | - | - | - | (6) | (6) |
| At 31 st December, 2011 | 5,190 | 12,037 | 140 | 2,390 | 27 | 1,032 | 86 | 13,744 | 2,202 | 10,768 | 47,616 | 4,428 | 52,044 |
| At 1 st January, 2010 | | | | | | | | | | | | | |
| - As previously reported | 4,623 | 4,526 | 170 | 1,169 | 286 | 982 | 86 | 14,866 | 1,518 | 7,151 | 35,377 | 4,358 | 39,735 |
| - Reclassification from general reserve to share premium | - | 1,930 | - | - | - | - | - | (1,930) | - | - | - | - | - |
| - As restated | 4,623 | 6,456 | 170 | 1,169 | 286 | 982 | 86 | 12,936 | 1,518 | 7,151 | 35,377 | 4,358 | 39,735 |
| Changes in equity | | | | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | - | - | - | 4,224 | 4,224 | 79 | 4,303 |
| Other comprehensive income | - | - | - | 769 | (28) | 41 | - | - | 86 | - | 868 | - | 868 |
| Total comprehensive income | - | - | - | 769 | (28) | 41 | - | - | 86 | 4,224 | 5,092 | 79 | 5,171 |
| Shares issued in lieu of dividend | | | | | | | | | | | | | |
| - As previously reported | 47 | (47) | - | - | - | - | - | 557 | - | - | 557 | - | 557 |
| - Reclassification from general reserve to share premium | - | 251 | - | - | - | - | - | (251) | - | - | - | - | - |
| - As restated | 47 | 204 | - | - | - | - | - | 306 | - | - | 557 | - | 557 |
| Subscription of new shares | 418 | 4,695 | - | - | - | - | - | - | - | - | 5,113 | - | 5,113 |
| Shares issued under Staff Share Option Schemes | 17 | 130 | - | - | - | - | - | - | - | - | 147 | - | 147 |
| Equity settled share-based transaction | - | - | 29 | - | - | - | - | - | - | - | 29 | - | 29 |
| Transfer | - | 27 | (34) | - | - | - | - | 30 | 439 | (462) | - | - | - |
| Dividends declared or approved during the year | - | - | - | - | - | - | - | - | - | (2,072) | (2,072) | (56) | (2,128) |
| Sale of interests in businesses to non-controlling interests investors | - | - | - | - | - | - | - | - | - | - | - | 4 | 4 |
| Exchange adjustments | - | - | - | - | - | - | - | - | - | - | - | 15 | 15 |
| At 31 st December, 2010 as restated | 5,105 | 11,512 | 165 | 1,938 | 258 | 1,023 | 86 | 13,272 | 2,043 | 8,841 | 44,243 | 4,400 | 48,643 |

5. Consolidated Cash Flow Statement

| | 2011 | 2010 |
|--|-----------------|---------------------|
| | HK\$ Mn | Restated HK\$ Mn |
| OPERATING ACTIVITIES | | |
| Profit for the year before taxation | 5,751 | 5,150 |
| Adjustments for: | | |
| Charge for impairment losses on loans and advances | 75 | 285 |
| Charge for impairment allowances on held-to-maturity investments, available-for-sale financial assets and associates | 60 | 23 |
| Share of profits less losses of associates | (435) | (341) |
| Net profit on sale of available-for-sale financial assets | (59) | (234) |
| Net profit on sale of subsidiaries and associates | (122) | (238) |
| Net (profit)/loss on sale of fixed assets | (140) | 6 |
| Interest expense on loan capital and certificates of deposit | 978 | 679 |
| Depreciation on fixed assets | 636 | 581 |
| Write back of impairment loss on bank premises | - | (2) |
| Dividend income from available-for-sale financial assets | (89) | (66) |
| Amortisation of intangible assets | 33 | 34 |
| Amortisation of premium/discount on certificates of deposit and loan capital issued | 60 | 68 |
| Revaluation losses on certificates of deposit and loan capital issued | 711 | 6 |
| Valuation gains on investment properties | (404) | (426) |
| Equity-settled share-based payment expenses | 20 | 29 |
| OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL | 7,075 | 5,554 |
| (Increase)/decrease in operating assets: | | |
| Cash and balances with banks with original maturity beyond three months | (10,076) | (8,176) |
| Placements with banks and other financial institutions with original maturity beyond three months | (28,624) | 21,616 |
| Trade bills | (18,285) | (16,701) |
| Trading assets | 245 | (191) |
| Financial assets designated at fair value through profit or loss | (471) | (5,800) |
| Advances to customers | (24,992) | (52,025) |
| Advances to banks and other financial institutions | 1,127 | (642) |
| Held-to-maturity debt securities | 1,276 | 1,467 |
| Available-for-sale financial assets | 259 | (7,112) |
| Other accounts and accrued interest | (4,364) | (7,809) |
| Increase/(decrease) in operating liabilities: | | |
| Deposits and balances of banks and other financial institutions | 5,929 | (1,671) |
| Deposits from customers | 47,521 | 79,030 |
| Trading liabilities | 1,447 | 1,655 |
| Other accounts and provisions | 7,296 | 10,150 |
| Exchange adjustments | 619 | 685 |
| NET CASH (OUTFLOW)/INFLOW FROM OPERATIONS | (14,018) | 20,030 |
| Income tax paid | | |
| Hong Kong profits tax paid | (69) | (39) |
| Overseas profits tax paid | (817) | (524) |
| NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES | (14,904) | 19,467 |

| | 2011 | 2010 |
|--|----------------|----------------|
| | HK\$ Mn | HK\$ Mn |
| INVESTING ACTIVITIES | | |
| Dividends received from associates | 117 | 78 |
| Dividends received from available-for-sale equity securities | 89 | 66 |
| Purchase of equity securities | (606) | (937) |
| Proceeds from sale of equity securities | 988 | 433 |
| Purchase of fixed assets | (577) | (873) |
| Purchase of investment properties | (8) | (16) |
| Proceeds from disposal of fixed assets | 519 | 56 |
| Disposal/(purchase) of shareholding in associates | 116 | (513) |
| Purchase of subsidiaries | (75) | (54) |
| Proceeds from sale of interest in a subsidiary | - | 521 |
| Sale of interests in business to non-controlling interests investors | - | 4 |
| Purchase of interests in business from non-controlling interests investors | 2 | - |
| NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES | 565 | (1,235) |
| FINANCING ACTIVITIES | | |
| Ordinary dividends paid | (1,157) | (1,241) |
| Distribution to Hybrid Tier 1 issue holders | (328) | (330) |
| Issue of ordinary share capital | 93 | 147 |
| Subscription for new shares | - | 5,113 |
| Issue of certificates of deposit | 19,380 | 4,111 |
| Issue of debt securities | 6,148 | 411 |
| Issue of loan capital | 3,867 | 4,615 |
| Redemption of certificates of deposit issued | (13,608) | (1,409) |
| Redemption of debt securities issued | (4,929) | - |
| Redemption of loan capital | (449) | (4,290) |
| Interest paid on loan capital | (572) | (435) |
| Interest paid on certificates of deposit issued | (129) | (88) |
| Interest paid on debt securities issued | (162) | - |
| NET CASH GENERATED FROM FINANCING ACTIVITIES | 8,154 | 6,604 |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (6,185) | 24,836 |
| CASH AND CASH EQUIVALENTS AT 1ST JANUARY | 85,366 | 60,530 |
| CASH AND CASH EQUIVALENTS AT 31ST DECEMBER | 79,181 | 85,366 |
| Cash flows from operating activities included: | | |
| Interest received | 19,938 | 12,733 |
| Interest paid | 9,718 | 5,162 |
| Dividend received | 129 | 97 |

Notes:

- (a) The financial information set out in this report does not constitute the Group's statutory accounts for the year ended 31st December, 2011 but there is no material change as compared to those accounts. The statutory accounts for the year ended 31st December, 2011 will be available from the website of The Stock Exchange of Hong Kong Limited.
- (b) The provision for Hong Kong profits tax for 2011 is calculated at 16.5% (2010: 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\$4,030 million (2010: HK\$3,894 million) after the distribution of HK\$328 million (2010: HK\$330 million) to Hybrid Tier 1 issue holders and on the weighted average of 2,059 million (2010: 2,024 million) ordinary shares outstanding during the year.
- (ii) The calculation of diluted earnings per share is based on earnings of HK\$4,030 million (2010: HK\$3,894 million) after the distribution of HK\$328 million (2010: HK\$330 million) to Hybrid Tier 1 issue holders and on 2,060 million (2010: 2,026 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

6. Dividends

| | 2011 HK\$ Mn | 2010 HK\$ Mn | Variance % |
|--|-----------------|-----------------|---------------|
| Interim dividend declared and paid of HK\$0.43 per share on 2,059 million shares (2010: HK\$0.38 per share on 2,034 million shares) | 885 | 772 | + 14.5 |
| Final dividend paid in respect of the previous financial year on shares issued under the share option schemes subsequent to the balance sheet date and before the close of the Register of Members of the Bank, of HK\$0.56 per share (2010: HK\$0.48 per share) | 1 | 2 | - 50.0 |
| Final dividend proposed after the balance sheet date of HK\$0.56 per share on 2,042 million shares | - | 1,144 | - 100.0 |
| Second interim dividend in lieu of the final dividend of HK\$0.51 per share on 2,076 million shares | 1,059 | - | - |
| | <u>1,945</u> | <u>1,918</u> | + 1.5 |

The second interim dividend in lieu of the final dividend and the final dividend proposed after the balance sheet date have not been recognised as a liability at the balance sheet date.

7. Interest Income

| | 2011 HK\$ Mn | 2010 HK\$ Mn | Variance % |
|---|-----------------|-----------------|---------------|
| Listed securities classified as held-to-maturity or available-for-sale | 388 | 381 | + 2.1 |
| Trading assets | | | |
| - listed | 27 | 22 | + 22.8 |
| - unlisted | 73 | 66 | + 10.4 |
| Interest rate swaps | 3,327 | 1,382 | + 140.8 |
| Financial assets designated at fair value through profit or loss | | | |
| - listed | 473 | 431 | + 9.6 |
| - unlisted | 229 | 197 | + 15.9 |
| Loans, deposits with banks and financial institutions, trade bills, and other unlisted securities that are not at fair value through profit or loss | 16,351 | 11,147 | + 46.7 |
| Total interest income | <u>20,868</u> | <u>13,626</u> | + 53.1 |

Included above is interest income accrued on impaired financial assets of HK\$62 million (2010: HK\$74 million) for the year ended 31st December, 2011.

8. Interest Expense

| | 2011 | 2010 | Variance | |
|---|---------------|--------------|----------|-------------|
| | HK\$ Mn | HK\$ Mn | | % |
| Customer deposits, deposits of banks and other financial institutions and certificates of deposit issued which are stated at amortised cost | 5,744 | 3,074 | + | 86.9 |
| Debt securities issued | 209 | 140 | + | 48.9 |
| Subordinated notes carried at amortised cost | 373 | 174 | + | 114.7 |
| Interest rate swaps | 4,920 | 2,185 | + | 125.2 |
| Financial instruments designated at fair value through profit or loss | 341 | 500 | - | 31.8 |
| Other borrowings | 18 | 10 | + | 66.3 |
| Total interest expense | 11,605 | 6,083 | + | 90.8 |

9. Fee and Commission Income

Fee and commission income arises from the following services:

| | 2011 | 2010 | Variance | |
|--|--------------|--------------|----------|-------------|
| | HK\$ Mn | HK\$ Mn | | % |
| Corporate services | 979 | 856 | + | 14.4 |
| Credit cards | 793 | 674 | + | 17.7 |
| Loans, overdrafts and guarantees | 502 | 463 | + | 8.5 |
| Trade finance | 409 | 252 | + | 62.1 |
| Securities and brokerage | 385 | 456 | - | 15.7 |
| Derivatives transactions | 292 | 289 | + | 1.1 |
| Other retail banking services | 273 | 237 | + | 15.2 |
| Trust and other fiduciary activities | 122 | 100 | + | 22.7 |
| Others | 350 | 322 | + | 8.3 |
| Total fee and commission income | 4,105 | 3,649 | + | 12.5 |

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

| | | | | |
|--------------|-------|-------|---|------|
| | 3,066 | 2,808 | + | 9.2 |
| Fee income | 3,818 | 3,370 | + | 13.3 |
| Fee expenses | (752) | (562) | + | 33.7 |

10. Net Trading Loss

| | 2011 | 2010 | Variance | |
|--|--------------|--------------|----------|-------------|
| | HK\$ Mn | HK\$ Mn | | % |
| Profit on dealing in foreign currencies | 326 | 311 | + | 4.7 |
| (Loss)/Profit on trading securities | (290) | 133 | - | 317.8 |
| Net loss on derivatives | (193) | (620) | - | 68.9 |
| Loss on other dealing activities | - | (1) | - | 54.2 |
| Dividend income from listed trading securities | 40 | 31 | + | 30.1 |
| Total net trading loss | (117) | (146) | - | 19.9 |

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

| | 2011 | 2010 | Variance | |
|---|--------------|------------|----------|---------|
| | HK\$ Mn | HK\$ Mn | | % |
| Revaluation loss on debts issued | (158) | (140) | + | 12.8 |
| Net loss on sale of other financial assets designated at fair value through profit or loss | (103) | (35) | + | 191.7 |
| (Loss)/Profit on redemption of subordinated notes issued | (4) | 8 | - | 152.2 |
| Revaluation (loss)/gain on other financial assets designated at fair value through profit or loss | (94) | 430 | - | 121.9 |
| Dividend income from financial assets designated at fair value through profit or loss | 5 | - | + | 2,535.8 |
| Total net result from financial instruments designated at fair value through profit or loss | <u>(354)</u> | <u>263</u> | - | 234.7 |

12. Net Hedging Loss

| | 2011 | 2010 | Variance | |
|---|------------|------------|----------|-------|
| | HK\$ Mn | HK\$ Mn | | % |
| Fair value hedges | | | | |
| - Net (loss)/gain on hedged items attributable to the hedged risk | (553) | 134 | - | 511.6 |
| - Net gain/(loss) on hedging instruments | 548 | (139) | + | 494.2 |
| | <u>(5)</u> | <u>(5)</u> | - | 13.5 |

13. Other Operating Income

| | 2011 HK\$ Mn | 2010 HK\$ Mn | Variance % |
|--|-----------------|-----------------|---------------|
| Dividend income from available-for-sale financial assets | | | |
| - listed | 36 | 35 | + |
| - unlisted | 53 | 31 | + |
| Rental from safe deposit boxes | 80 | 78 | + |
| Net revenue from insurance activities | 199 | 221 | - |
| Rental income on properties | 129 | 92 | + |
| Others | 89 | 72 | + |
| Total other operating income | <u>586</u> | <u>529</u> | + |

14. Operating Expenses

| | 2011 HK\$ Mn | 2010 HK\$ Mn | Variance % |
|---|-----------------|-----------------|---------------|
| Contributions to defined contribution plan | 318 | 248 | + |
| Equity-settled share-based payment expenses | 21 | 29 | - |
| Salaries and other staff costs | <u>4,045</u> | <u>3,338</u> | + |
| Total staff costs | <u>4,384</u> | <u>3,615</u> | + |
| Premises and equipment expenses excluding depreciation | | | |
| - Rental of premises | 549 | 492 | + |
| - Maintenance, repairs and others | <u>549</u> | <u>488</u> | + |
| Total premises and equipment expenses excluding depreciation | <u>1,098</u> | <u>980</u> | + |
| Depreciation on fixed assets | <u>636</u> | <u>581</u> | + |
| Amortisation of intangible assets | <u>33</u> | <u>34</u> | - |
| Other operating expenses | | | |
| - Stamp duty, overseas and PRC* business taxes, and value added taxes | 491 | 346 | + |
| - Communications, stationery and printing | 299 | 286 | + |
| - Advertising expenses | 252 | 311 | - |
| - Legal and professional fees | 251 | 219 | + |
| - Business promotions and business travel | 158 | 148 | + |
| - Card related expenses | 69 | 113 | - |
| - Insurance expenses | 35 | 43 | - |
| - Audit fee | 15 | 11 | + |
| - Administration expenses of corporate services | 14 | 9 | + |
| - Membership fees | 12 | 10 | + |
| - Bank charges | 11 | 7 | + |
| - Donations | 8 | 8 | - |
| - Bank licence | 4 | 4 | + |
| - Others | 222 | 179 | + |
| Total other operating expenses | <u>1,841</u> | <u>1,694</u> | + |
| Total operating expenses | <u>7,992</u> | <u>6,904</u> | + |

* PRC denotes the People's Republic of China.

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

| | 2011 HK\$ Mn | 2010 HK\$ Mn | Variance % |
|---|-----------------|-----------------|---------------|
| Net revaluation (loss)/gain transferred from reserves | (5) | 200 | - 102.6 |
| Profit arising in current year | 64 | 34 | + 90.9 |
| | <u>59</u> | <u>234</u> | - 74.6 |

16. Trading Assets

| | 2011 HK\$ Mn | 2010 HK\$ Mn | Variance % |
|--|-----------------|-----------------|---------------|
| Debt securities | 1,317 | 2,411 | - 45.4 |
| Equity securities | 1,051 | 1,502 | - 30.0 |
| Investment funds | 17 | 194 | - 91.1 |
| Trading securities | 2,385 | 4,107 | - 41.9 |
| Positive fair values of derivatives | 3,215 | 1,738 | + 84.9 |
| | <u>5,600</u> | <u>5,845</u> | - 4.2 |
| Issued by: | | | |
| Central governments and central banks | 551 | 596 | - 7.6 |
| Public sector entities | 10 | 22 | - 54.0 |
| Banks and other financial institutions | 374 | 1,066 | - 64.9 |
| Corporate entities | 1,433 | 2,229 | - 35.7 |
| Other entities | 17 | 194 | - 91.1 |
| | <u>2,385</u> | <u>4,107</u> | - 41.9 |
| Analysed by place of listing: | | | |
| Listed in Hong Kong | 854 | 1,484 | - 42.4 |
| Listed outside Hong Kong | 717 | 1,071 | - 33.1 |
| | <u>1,571</u> | <u>2,555</u> | - 38.5 |
| Unlisted | 814 | 1,552 | - 47.5 |
| | <u>2,385</u> | <u>4,107</u> | - 41.9 |

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

| | 2011 | 2010 | Variance | |
|--|---------------|---------------|----------|---------|
| | HK\$ Mn | HK\$ Mn | | % |
| Debt securities | 16,330 | 15,989 | + | 2.1 |
| Equity securities | 329 | 203 | + | 62.1 |
| Investment funds | 4 | - | + | 6,408.8 |
| | <u>16,663</u> | <u>16,192</u> | + | 2.9 |
| Issued by: | | | | |
| Central governments and central banks | 452 | 531 | - | 14.9 |
| Public sector entities | - | 175 | - | 100.0 |
| Banks and other financial institutions | 8,036 | 8,032 | + | 0.1 |
| Corporate entities | 8,171 | 7,454 | + | 9.6 |
| Other entities | 4 | - | | - |
| | <u>16,663</u> | <u>16,192</u> | + | 2.9 |
| Analysed by place of listing: | | | | |
| Listed in Hong Kong | 3,689 | 3,695 | - | 0.1 |
| Listed outside Hong Kong | 7,572 | 7,171 | + | 5.6 |
| | <u>11,261</u> | <u>10,866</u> | + | 3.6 |
| Unlisted | 5,402 | 5,326 | + | 1.4 |
| | <u>16,663</u> | <u>16,192</u> | + | 2.9 |

18. Advances to Customers and Other Accounts

(a) Advances to customers and other accounts

| | 2011 | 2010 | Variance | |
|--|----------------|----------------|----------|-------|
| | HK\$ Mn | HK\$ Mn | | % |
| (i) Advances to customers | 321,890 | 297,044 | + | 8.4 |
| Less: Impairment allowances | | | | |
| - Individual | (205) | (282) | - | 27.3 |
| - Collective | (763) | (819) | - | 6.8 |
| | <u>320,922</u> | <u>295,943</u> | + | 8.4 |
| (ii) Other accounts | | | | |
| Advances to banks and other financial institutions | 193 | 1,320 | - | 85.4 |
| Less: Impairment allowances - Individual | (3) | - | | - |
| | <u>190</u> | <u>1,320</u> | - | 85.6 |
| Certificates of deposit held | 39 | 39 | - | 0.1 |
| Accrued interest | 3,136 | 2,206 | + | 42.2 |
| Bankers acceptances | 18,381 | 14,583 | + | 26.0 |
| Other accounts | 5,374 | 5,990 | - | 10.3 |
| | <u>26,930</u> | <u>22,818</u> | + | 18.0 |
| Less: Impairment allowances | | | | |
| - Individual | (88) | (38) | + | 130.0 |
| - Collective | (4) | (3) | + | 50.3 |
| | <u>26,838</u> | <u>22,777</u> | + | 17.8 |
| | <u>347,950</u> | <u>320,040</u> | + | 8.7 |

b) Advances to customers – by industry sectors

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

| | 2011 | | 2010 | | Variance | |
|---|---------------------------|----------------------------|---------------------------|----------------------------|----------|-------------------|
| | Gross advances HK\$ Mn | % of secured advances % | Gross advances HK\$ Mn | % of secured advances % | | |
| Loans for use in Hong Kong | | | | | | |
| Industrial, commercial and financial | | | | | | |
| - Property development | 10,946 | 69.03 | 10,245 | 60.04 | + | 6.9 |
| - Property investment | 41,747 | 89.63 | 40,697 | 92.44 | + | 2.6 |
| - Financial concerns | 9,430 | 78.35 | 6,169 | 75.47 | + | 52.9 |
| - Stockbrokers | 422 | 85.95 | 453 | 84.53 | - | 6.7 |
| - Wholesale and retail trade | 7,790 | 33.58 | 4,710 | 40.62 | + | 65.4 |
| - Manufacturing | 5,392 | 42.40 | 4,876 | 50.28 | + | 10.6 |
| - Transport and transport equipment | 4,642 | 76.38 | 4,461 | 77.56 | + | 4.1 |
| - Recreational activities | 272 | 26.60 | 88 | 16.47 | + | 208.2 |
| - Information technology | 589 | 60.57 | 566 | 57.15 | + | 4.0 |
| - Others | 5,758 | 44.02 | 4,885 | 55.71 | + | 17.9 |
| - Sub-total | <u>86,988</u> | <u>73.73</u> | <u>77,150</u> | <u>77.37</u> | + | <u>12.8</u> |
| Individuals | | | | | | |
| - Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 1,379 | 100.00 | 1,611 | 100.00 | - | 14.4 |
| - Loans for the purchase of other residential properties | 27,246 | 99.97 | 30,130 | 99.99 | - | 9.6 |
| - Credit card advances | 3,649 | 0.00 | 3,087 | 0.00 | + | 18.2 |
| - Others | 14,457 | 70.71 | 13,570 | 73.38 | + | 6.5 |
| - Sub-total | <u>46,731</u> | <u>83.11</u> | <u>48,398</u> | <u>86.15</u> | - | <u>3.4</u> |
| Total loans for use in Hong Kong | 133,719 | 77.01 | 125,548 | 80.76 | + | 1.6 |
| Trade finance | 9,707 | 51.23 | 9,554 | 46.03 | + | 4.5 |
| Loans for use outside Hong Kong * | <u>178,464</u> | <u>71.37</u> | <u>161,942</u> | <u>72.16</u> | + | <u>10.2</u> |
| Total advances to customers | <u><u>321,890</u></u> | <u><u>73.10</u></u> | <u><u>297,044</u></u> | <u><u>74.95</u></u> | + | <u><u>8.4</u></u> |

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

| | 2011 | | 2010 | | Variance | |
|----------------------------|---------------------------|----------------------------|---------------------------|----------------------------|----------|-------------|
| | Gross advances HK\$ Mn | % of secured advances % | Gross advances HK\$ Mn | % of secured advances % | | |
| Property development | 26,038 | 50.83 | 24,732 | 52.19 | + | 5.3 |
| Property investment | 23,123 | 92.69 | 22,722 | 89.55 | + | 1.8 |
| Wholesale and retail trade | 24,619 | 81.17 | 17,835 | 88.23 | + | 38.0 |
| Manufacturing | 11,352 | 61.57 | 9,731 | 51.77 | + | 16.7 |
| Others | 52,711 | 68.02 | 47,628 | 73.16 | + | 10.7 |
| | <u>137,843</u> | <u>70.73</u> | <u>122,648</u> | <u>72.46</u> | + | <u>12.4</u> |

Individually impaired loans, as well as relevant information, in respect of industry sectors which constitute 10% or more of total advances to customers are as follows:

| | 2011 | 2010 | Variance | |
|--|---------|---------|----------|-------|
| | HK\$ Mn | HK\$ Mn | - | % |
| (i) Property development | | | | |
| a. Individually impaired loans | 274 | 528 | - | 48.1 |
| b. Individual impairment allowance | 39 | 58 | - | 33.2 |
| c. Collective impairment allowance | 61 | 64 | - | 5.8 |
| d. Provision charged to income statement | | | | |
| - individual impairment loss | 11 | 169 | - | 93.3 |
| - collective impairment loss | 16 | 22 | - | 24.5 |
| e. Written off | 7 | 114 | - | 94.3 |
| (ii) Property investment | | | | |
| a. Individually impaired loans | 388 | 441 | - | 12.0 |
| b. Individual impairment allowance | 35 | 67 | - | 47.3 |
| c. Collective impairment allowance | 226 | 266 | - | 14.9 |
| d. Provision charged to income statement | | | | |
| - individual impairment loss | 29 | 87 | - | 66.8 |
| - collective impairment loss | 87 | 82 | + | 6.8 |
| e. Written off | 18 | 27 | - | 33.8 |
| (iii) Loans for purchase of residential properties | | | | |
| a. Individually impaired loans | 238 | 102 | - | 134.0 |
| b. Individual impairment allowance | - | - | | |
| c. Collective impairment allowance | 56 | 46 | + | 21.3 |
| d. Provision charged to income statement | | | | |
| - individual impairment loss | 1 | 3 | - | 58.3 |
| - collective impairment loss | 20 | 24 | - | 14.8 |
| e. Written off | 1 | 3 | - | 57.9 |
| (iv) Wholesale and retail trade | | | | |
| a. Individually impaired loans | 170 | 117 | + | 45.3 |
| b. Individual impairment allowance | 73 | 43 | + | 70.2 |
| c. Collective impairment allowance | 89 | 76 | + | 16.2 |
| d. Provision charged to income statement | | | | |
| - individual impairment loss | 63 | 35 | + | 80.0 |
| - collective impairment loss | 30 | 22 | + | 40.1 |
| e. Written off | 30 | 96 | - | 69.1 |

(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.

| | | 2011 | | | | |
|---|-----------------------------------|---|--------------------------------------|---------------------------------------|---------------------------------------|--|
| | 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 | 149,309 | 179 | 558 | 66 | 254 | |
| People's Republic of China | 136,366 | 21 | 216 | 24 | 204 | |
| Other Asian Countries | 15,625 | 20 | 33 | 24 | 131 | |
| Others | 20,590 | 31 | 668 | 91 | 174 | |
| Total | 321,890 | 251 | 1,475 | 205 | 763 | |
| <p>% of total advances to customers</p> | | | <u>0.46%</u> | | | |
| <p>Market value of security held against impaired advances to customers</p> | | | <u>3,267</u> | | | |

| | | 2010 | | | | |
|---|-----------------------------------|---|--------------------------------------|---------------------------------------|---------------------------------------|--|
| | 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 | 145,109 | 183 | 337 | 77 | 284 | |
| People's Republic of China | 118,898 | 53 | 222 | 27 | 145 | |
| Other Asian Countries | 12,061 | 55 | 101 | 62 | 149 | |
| Others | 20,976 | 105 | 932 | 116 | 241 | |
| Total | 297,044 | 396 | 1,592 | 282 | 819 | |
| <p>% of total advances to customers</p> | | | <u>0.54%</u> | | | |
| <p>Market value of security held against impaired advances to customers</p> | | | <u>3,223</u> | | | |

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.

19. Available-for-Sale Financial Assets

| | 2011 HK\$ Mn | 2010 HK\$ Mn | Variance % |
|--|-----------------|-----------------|---------------|
| Treasury bills (including Exchange Fund Bills) | 14,106 | 6,744 | + 109.1 |
| Certificates of deposit held | 3,120 | 2,152 | + 45.0 |
| Debt securities | 25,671 | 29,271 | - 12.3 |
| Equity securities | 1,910 | 2,290 | - 16.5 |
| Investment funds | 103 | 322 | - 68.0 |
| | <u>44,910</u> | <u>40,779</u> | + 10.1 |
| Issued by: | | | |
| Central governments and central banks | 17,751 | 11,882 | + 49.4 |
| Public sector entities | 1,917 | 3,726 | - 48.5 |
| Banks and other financial institutions | 14,202 | 14,861 | - 4.4 |
| Corporate entities | 10,900 | 10,016 | + 8.8 |
| Other entities | 140 | 294 | - 52.1 |
| | <u>44,910</u> | <u>40,779</u> | + 10.1 |
| Analysed by place of listing: | | | |
| Listed in Hong Kong | 1,761 | 2,249 | - 21.7 |
| Listed outside Hong Kong | 6,284 | 6,545 | - 4.0 |
| | 8,045 | 8,794 | - 8.5 |
| Unlisted | 36,865 | 31,985 | + 15.3 |
| | <u>44,910</u> | <u>40,779</u> | + 10.1 |

20. Held-to-Maturity Investments

| | 2011 HK\$ Mn | 2010 HK\$ Mn | Variance % |
|--|-----------------|-----------------|---------------|
| Treasury bills (including Exchange Fund Bills) | 445 | 64 | + 598.2 |
| Certificates of deposit held | 1,165 | 1,288 | - 9.6 |
| Debt securities | 2,988 | 4,362 | - 31.7 |
| | 4,598 | 5,714 | - 19.5 |
| Less: Impairment allowances | (11) | - | + 100.0 |
| | <u>4,587</u> | <u>5,714</u> | - 19.7 |
| Issued by: | | | |
| Central governments and central banks | 1,372 | 1,506 | - 8.9 |
| Public sector entities | 428 | 455 | - 5.9 |
| Banks and other financial institutions | 2,335 | 2,897 | - 19.4 |
| Corporate entities | 452 | 856 | - 47.1 |
| | <u>4,587</u> | <u>5,714</u> | - 19.7 |
| Analysed by place of listing: | | | |
| Listed in Hong Kong | 289 | 948 | - 69.6 |
| Listed outside Hong Kong | 2,192 | 2,548 | - 14.0 |
| | 2,481 | 3,496 | - 29.0 |
| Unlisted | 2,106 | 2,218 | - 5.0 |
| | <u>4,587</u> | <u>5,714</u> | - 19.7 |
| Fair value: | | | |
| Listed securities | 2,549 | 3,614 | - 29.5 |
| Unlisted securities | 2,109 | 2,237 | - 5.7 |
| | <u>4,658</u> | <u>5,851</u> | - 20.4 |

21. Segment Reporting

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

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

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

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

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

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

Segment assets include all tangible 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.

| | 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 | China operations | Overseas operations | Corporate services | | | | |
| | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn | | | | |
| Net interest income/(expense) | 1,762 | 2,024 | (787) | 279 | 111 | 4,921 | 833 | 3 | 9,146 | 117 | - | 9,263 |
| Non-interest income/(expense) | 603 | 429 | (704) | 276 | 12 | 822 | 303 | 981 | 2,722 | 1,057 | (327) | 3,452 |
| Operating income/(expense) | 2,365 | 2,453 | (1,491) | 555 | 123 | 5,743 | 1,136 | 984 | 11,868 | 1,174 | (327) | 12,715 |
| Operating expenses | (1,321) | (165) | (119) | (153) | (12) | (3,298) | (587) | (664) | (6,319) | (2,000) | 327 | (7,992) |
| Operating profit/(loss) before impairment losses | 1,044 | 2,288 | (1,610) | 402 | 111 | 2,445 | 549 | 320 | 5,549 | (826) | - | 4,723 |
| Impairment losses on loans and advances and other accounts | (63) | 34 | 4 | 15 | - | (161) | 113 | (7) | (65) | (10) | - | (75) |
| Impairment losses on available-for-sale financial assets and associates | - | - | - | - | - | - | (11) | - | (11) | (49) | - | (60) |
| Operating profit/(loss) after impairment losses | 981 | 2,322 | (1,606) | 417 | 111 | 2,284 | 651 | 313 | 5,473 | (885) | - | 4,588 |
| Profit/(Loss) on sale of fixed assets, available-for-sale financial assets, loans and receivables and subsidiaries/associates | 1 | - | 39 | - | - | 112 | 3 | (2) | 153 | 49 | - | 202 |
| Profit on sale of associates | - | - | - | - | - | - | 15 | - | 15 | 107 | - | 122 |
| Valuation gains on investment properties | - | - | - | - | - | 48 | 4 | - | 52 | 352 | - | 404 |
| Share of profits less losses of associates | - | - | - | - | - | - | - | - | - | 435 | - | 435 |
| Profit/(Loss) before taxation | 982 | 2,322 | (1,567) | 417 | 111 | 2,444 | 673 | 311 | 5,693 | 58 | - | 5,751 |
| Depreciation for the year | (68) | (1) | (5) | (2) | (1) | (325) | (26) | (19) | (447) | (189) | - | (636) |
| Segment assets | 47,797 | 124,066 | 113,204 | 19,133 | 12,345 | 278,152 | 58,935 | 2,881 | 656,513 | 22,954 | (71,885) | 607,582 |
| Investments in associates | - | - | - | - | - | - | - | - | - | 3,820 | - | 3,820 |
| Total assets | 47,797 | 124,066 | 113,204 | 19,133 | 12,345 | 278,152 | 58,935 | 2,881 | 656,513 | 26,774 | (71,885) | 611,402 |
| Total liabilities | 245,027 | 1,026 | 44,395 | 17,199 | - | 256,450 | 50,175 | 762 | 615,034 | 10,496 | (66,172) | 559,358 |
| Capital expenditure incurred during the year | 66 | 8 | 8 | 6 | 1 | 313 | 2 | 89 | 493 | 142 | - | 635 |

2010 (Restated)

| | Hong Kong banking operations | | | | | | | | Total reportable segments HK\$ Mn | Others HK\$ Mn | Inter-segment elimination HK\$ Mn | Total HK\$ Mn |
|---|------------------------------|-------------------|------------------|-------------------|------------------------|------------------|---------------------|--------------------|--------------------------------------|-------------------|--------------------------------------|------------------|
| | Personal banking | Corporate banking | Treasury markets | Wealth management | Financial Institutions | China operations | Overseas operations | Corporate services | | | | |
| | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn | | | | |
| Net interest income/(expense) | 2,011 | 1,129 | 276 | 192 | 27 | 3,462 | 716 | 2 | 7,815 | (272) | - | 7,543 |
| Non-interest income/(expense) | 529 | 270 | 19 | 259 | 9 | 535 | 232 | 864 | 2,717 | 1,116 | (250) | 3,583 |
| Operating income | 2,540 | 1,399 | 295 | 451 | 36 | 3,997 | 948 | 866 | 10,532 | 844 | (250) | 11,126 |
| Operating expenses | (1,343) | (138) | (108) | (125) | (8) | (2,566) | (508) | (566) | (5,362) | (1,792) | 250 | (6,904) |
| Operating profit/(loss) before impairment losses | 1,197 | 1,261 | 187 | 326 | 28 | 1,431 | 440 | 300 | 5,170 | (948) | - | 4,222 |
| Impairment losses on loans and advances and other accounts | (25) | (53) | - | (6) | - | (12) | (184) | (4) | (284) | (1) | - | (285) |
| Impairment losses on available-for-sale financial assets and associates | - | - | - | - | - | - | - | - | - | (23) | - | (23) |
| Write back of impairment losses on bank premises | - | - | - | - | - | - | - | - | - | 2 | - | 2 |
| Operating profit/(loss) after impairment losses | 1,172 | 1,208 | 187 | 320 | 28 | 1,419 | 256 | 296 | 4,886 | (970) | - | 3,916 |
| Profit/(Loss) on sale of fixed assets, available-for-sale financial assets, loans and receivables and subsidiaries/associates | (5) | (1) | 145 | - | - | 8 | 1 | 9 | 157 | 310 | - | 467 |
| Valuation gains on investment properties | - | - | - | - | - | 2 | 2 | - | 4 | 422 | - | 426 |
| Share of profits less losses of associates | - | - | - | - | - | - | - | - | - | 341 | - | 341 |
| Profit before taxation | 1,167 | 1,207 | 332 | 320 | 28 | 1,429 | 259 | 305 | 5,047 | 103 | - | 5,150 |
| Depreciation for the year | (67) | (1) | (4) | (2) | - | (268) | (30) | (17) | (389) | (192) | - | (581) |
| Segment assets | 50,433 | 107,211 | 125,742 | 13,168 | 5,493 | 220,419 | 45,975 | 2,765 | 571,206 | 22,262 | (62,848) | 530,620 |
| Investments in associates | - | - | - | - | - | - | - | - | - | 3,573 | - | 3,573 |
| Total assets | 50,433 | 107,211 | 125,742 | 13,168 | 5,493 | 220,419 | 45,975 | 2,765 | 571,206 | 25,835 | (62,848) | 534,193 |
| Total liabilities | 243,264 | 4,761 | 30,315 | 15,827 | - | 201,609 | 37,427 | 726 | 533,929 | 9,255 | (57,634) | 485,550 |
| Capital expenditure incurred during the year | 68 | 2 | 6 | 4 | 2 | 553 | 29 | 29 | 693 | 254 | - | 947 |

22. Off-balance Sheet Exposures

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

| | 2011 | 2010 | Variance | |
|---|----------------|---------------------|----------|-------------|
| | HK\$ Mn | Restated HK\$ Mn | | % |
| Contractual amounts of contingent liabilities and commitments | | | | |
| - Direct credit substitutes | 10,456 | 8,915 | + | 17.3 |
| - Transaction-related contingencies | 1,159 | 1,309 | - | 11.5 |
| - Trade-related contingencies | 2,321 | 1,907 | + | 21.7 |
| - Commitments that are unconditionally cancellable without prior notice | 41,114 | 37,453 | + | 9.8 |
| - Other commitments with an original maturity | | | | |
| - up to 1 year | 76,774 | 48,604 | + | 58.0 |
| - over 1 year | 16,657 | 19,690 | - | 15.4 |
| Total | 148,481 | 117,878 | + | 26.0 |
| Credit risk weighted amounts | 49,965 | 40,584 | + | 23.1 |
| Fair value | | | | |
| Assets | | | | |
| Exchange rate contracts | 1,440 | 879 | + | 63.8 |
| Interest rate contracts | 1,403 | 703 | + | 99.6 |
| Equity contracts | 337 | 154 | + | 118.8 |
| Others | 35 | 2 | + | 1,650.0 |
| | <u>3,215</u> | <u>1,738</u> | <u>+</u> | <u>85.0</u> |
| Liabilities | | | | |
| Exchange rate contracts | 1,397 | 712 | + | 96.2 |
| Interest rate contracts | 2,829 | 2,280 | + | 24.1 |
| Equity contracts | 292 | 104 | + | 180.8 |
| Others | 20 | 4 | + | 400.0 |
| | <u>4,538</u> | <u>3,100</u> | <u>+</u> | <u>46.4</u> |
| Notional amounts of derivatives | | | | |
| Exchange rate contracts | 358,968 | 217,123 | + | 65.3 |
| Interest rate contracts | 148,391 | 86,394 | + | 71.8 |
| Equity contracts | 11,984 | 10,458 | + | 14.6 |
| Others | 2,091 | 513 | + | 307.6 |
| | <u>521,434</u> | <u>314,488</u> | <u>+</u> | <u>65.8</u> |
| Credit risk weighted amounts | | | | |
| Exchange rate contracts | 3,148 | 2,144 | + | 46.8 |
| Interest rate contracts | 1,378 | 678 | + | 103.2 |
| Equity contracts | 328 | 219 | + | 49.8 |
| Others | 6 | 15 | - | 60.0 |
| | <u>4,860</u> | <u>3,056</u> | <u>+</u> | <u>59.0</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.

23. 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.

| | 2011 | | | Total |
|----------------------------------|--------------|---------------|--------------|---------------|
| | HK\$ Mn | | | |
| | USD | RMB | Others | |
| Spot assets | 104,573 | 258,210 | 49,159 | 411,942 |
| Spot liabilities | (97,574) | (215,951) | (58,491) | (372,016) |
| Forward purchases | 97,706 | 70,840 | 16,861 | 185,407 |
| Forward sales | (100,235) | (95,312) | (5,539) | (201,086) |
| Net options position | 31 | - | (25) | 6 |
| Net long non-structural position | <u>4,501</u> | <u>17,787</u> | <u>1,965</u> | <u>24,253</u> |

| | 2010 (Restated) | | | Total |
|----------------------------------|-----------------|--------------|--------------|---------------|
| | HK\$ Mn | | | |
| | USD | RMB | Others | |
| Spot assets | 94,806 | 192,680 | 50,424 | 337,910 |
| Spot liabilities | (84,212) | (172,452) | (53,480) | (310,144) |
| Forward purchases | 148,090 | 94,932 | 12,559 | 255,581 |
| Forward sales | (156,605) | (108,056) | (8,196) | (272,857) |
| Net options position | 154 | - | (10) | 144 |
| Net long non-structural position | <u>2,233</u> | <u>7,104</u> | <u>1,297</u> | <u>10,634</u> |

| | 2011 | | | Total |
|-------------------------|--------------|--------------|------------|---------------|
| | HK\$ Mn | | | |
| | USD | RMB | Others | |
| Net structural position | <u>2,573</u> | <u>8,631</u> | <u>734</u> | <u>11,938</u> |

| | 2010 | | | Total |
|-------------------------|--------------|--------------|------------|---------------|
| | HK\$ Mn | | | |
| | USD | RMB | Others | |
| Net structural position | <u>2,467</u> | <u>6,855</u> | <u>727</u> | <u>10,049</u> |

24. Reserves

| | 2011 | 2010 | Variance | |
|--------------------------------------|---------------|---------------------|----------|------|
| | HK\$ Mn | Restated HK\$ Mn | | % |
| Share premium | 12,037 | 11,512 | + | 4.6 |
| General reserve | 13,744 | 13,272 | + | 3.5 |
| Revaluation reserve on bank premises | 1,032 | 1,023 | + | 0.9 |
| Investment revaluation reserve | 27 | 258 | - | 89.5 |
| Exchange revaluation reserve | 2,390 | 1,938 | + | 23.3 |
| Other reserves | 2,428 | 2,294 | + | 5.9 |
| Retained profits* | 10,768 | 8,841 | + | 21.8 |
| Total | <u>42,426</u> | <u>39,138</u> | + | 8.4 |
| Dividends declared, not provided for | <u>1,059</u> | <u>1,144</u> | - | 7.4 |

* A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances and investments in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the Hong Kong Monetary Authority. As at 31st December, 2011, HK\$4,065 million (2010: HK\$2,306 million) was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the Hong Kong Monetary Authority.

25. Non-adjusting post balance sheet events

After the balance sheet date the directors declared a second interim dividend. Further details are disclosed in Note 6.

26. Comparative Figures

The Bank has changed the basis of accounting for the interim scrip dividend from bonus share approach to reinvestment approach, which is considered a more accurate method to reflect the legal form of scrip dividends. The Share Premium and General Reserve Accounts for the period from 1991 to 2010 are restated accordingly to reflect the new approach.

The 2010 figures in Note 21 – Segment Reporting have been restated due to a change in the presentation of certain assets and liabilities within supporting units in Hong Kong, and an addition of a new reportable segment, for reporting to the Group's most senior executive management with effect from 2011.

The 2010 figures in Note 23 – Currency Concentrations have been restated to better reflect, from a risk management point of view, the economic substance of certain classes of trades.

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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital Adequacy Ratio and Capital Base

| (a) Capital adequacy ratio | <u>2011</u> | <u>2010</u> |
|---|-------------|-------------|
| | % | % |
| Capital adequacy ratio as at 31 st December | 13.7 | 13.2 |
| Core capital adequacy ratio as at 31 st December | 9.4 | 9.8 |

Capital ratios at 31st December, 2011 and 31st December, 2010 were compiled in accordance with the Banking (Capital) Rules (“the Capital Rules”) issued by the Hong Kong Monetary Authority under Section 98A of the Hong Kong Banking Ordinance for the implementation of the “Basel II” capital accord, which became effective on 1st January, 2007. In accordance with the Capital Rules, the Bank has adopted the foundation internal ratings-based approach for the calculation of the risk-weighted assets for credit risk and the internal models approach for the calculation of market risk and standardised approach for operational risk.

The basis of consolidation for 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 98(2) of the Banking Ordinance. Subsidiaries not included in consolidation for regulatory purposes are 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 Banking (Capital) Rules and the Banking Ordinance. The Bank’s shareholdings in these subsidiaries are deducted from its core capital and supplementary capital as determined in accordance with Part 3 of the Banking (Capital) Rules.

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

Blue Cross (Asia-Pacific) Insurance Limited
BEA Life Limited
East Asia Futures Limited
East Asia Securities Company Limited

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

(b) Group capital base after deductions

| | 2011 | 2010 |
|---|----------------------|----------------------|
| | HK\$ Mn | HK\$ Mn |
| Core capital | | |
| Paid up ordinary share capital | 5,190 | 5,105 |
| Share premium | 12,037 | 11,512 |
| Reserves | 17,847 | 17,629 |
| Profit or loss account | 2,169 | 1,380 |
| Non-controlling interests | 3,555 | 3,557 |
| Deduct: Goodwill | (1,658) | (1,658) |
| Net deferred tax assets | (377) | (399) |
| Other intangible assets | (26) | (27) |
| | <u>38,737</u> | <u>37,099</u> |
| Less: Core capital items deductions | <u>(3,319)</u> | <u>(3,593)</u> |
| Total core capital | <u>35,418</u> | <u>33,506</u> |
| Eligible supplementary capital | | |
| Reserves attributable to fair value gains on revaluation of holdings of land and buildings | 970 | 970 |
| Revaluation reserves for fair value gains on revaluation of holdings of available-for-sale equities and debt securities | 32 | 65 |
| Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss | 2 | 197 |
| Regulatory reserve for general banking risks | 163 | 54 |
| Collectively assessed impairment allowances | 93 | 129 |
| Surplus provisions | 1,849 | 921 |
| Perpetual subordinated debt | 3,163 | 3,606 |
| Term subordinated debt | 13,146 | 9,280 |
| | <u>19,418</u> | <u>15,222</u> |
| Less: Supplementary capital items deductions | <u>(3,319)</u> | <u>(3,593)</u> |
| Total supplementary capital | <u>16,099</u> | <u>11,629</u> |
| Total capital base | <u><u>51,517</u></u> | <u><u>45,135</u></u> |

B. Liquidity Ratio

| | <u>2011</u> | <u>2010</u> |
|--------------------------------------|-------------|-------------|
| | % | % |
| Average liquidity ratio for the year | 42.8 | 44.9 |

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

C. Cross-border Claims

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

| | 2011 | | | |
|--|--|------------------------------|---------|---------|
| | Banks and other financial institutions | Public sector entities | Others | Total |
| | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn |
| People's Republic of China | 38,220 | 2,122 | 69,168 | 109,510 |
| Asian countries, excluding People's Republic of China | 18,329 | 5,056 | 19,734 | 43,119 |
| North America | 7,009 | 269 | 3,219 | 10,497 |
| Western Europe | 10,477 | - | 1,253 | 11,730 |
| | 2010 | | | |
| | Banks and other financial institutions | Public sector entities | Others | Total |
| | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn |
| People's Republic of China | 17,270 | 2,153 | 56,083 | 75,506 |
| Asian countries, excluding People's Republic of China | 23,537 | 3,047 | 16,128 | 42,712 |
| North America | 8,035 | 210 | 11,273 | 19,518 |
| Western Europe | 29,620 | - | 4,802 | 34,422 |

D. Non-bank Mainland Exposures

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

| | 2011 | | | |
|--|---------------------------------|----------------------------------|---------|---------------------------------------|
| | 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 | 164,801 | 66,182 | 230,983 | 87 |
| Companies and individuals outside the Mainland where the credit is granted for use in the Mainland | 28,295 | 2,742 | 31,037 | 1 |
| Other counterparties the exposures to whom are considered to be non-bank Mainland exposures | 15,865 | 1,643 | 17,508 | - |
| Total | 208,961 | 70,567 | 279,528 | 88 |

| Type of counterparties | 2010 | | | |
|--|---------------------------|----------------------------|----------------|---------------------------------|
| | On-balance sheet exposure | Off-balance sheet exposure | Total | Individual impairment allowance |
| | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn |
| Mainland entities | 136,500 | 41,863 | 178,363 | 31 |
| Companies and individuals outside the Mainland where the credit is granted for use in the Mainland | 36,223 | 2,631 | 38,854 | 5 |
| Other counterparties the exposures to whom are considered to be non-bank Mainland exposures | 12,660 | 102 | 12,762 | - |
| Total | 185,383 | 44,596 | 229,979 | 36 |

E. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

| | 2011 | | 2010 | |
|--|------------|----------------------------------|------------|----------------------------------|
| | 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 | 92 | 0.0 | 98 | 0.0 |
| - 1 year or less but over 6 months | 60 | 0.0 | 139 | 0.0 |
| - Over 1 year | 99 | 0.1 | 159 | 0.1 |
| | 251 | 0.1 | 396 | 0.1 |
| Rescheduled advances to customers | 392 | 0.1 | 443 | 0.2 |
| Total overdue and rescheduled advances | 643 | 0.2 | 839 | 0.3 |
| Secured overdue advances | 152 | 0.1 | 220 | 0.1 |
| Unsecured overdue advances | 99 | 0.0 | 176 | 0.1 |
| Market value of security held against secured overdue advances | 439 | | 561 | |
| Individual impairment allowance made on loans overdue for more than 3 months | 84 | | 148 | |

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

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

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

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

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

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

- (a) Debt Rescheduling / Restructuring
- (b) Enforcement of security
- (c) Legal Action
- (d) Recovery via Debt Collector

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 31st December, 2011 and 31st December, 2010; nor were there any rescheduled advances to banks and other financial institutions on these two dates.

(b) Other overdue and rescheduled assets

| | 2011 | | 2010 | |
|--|------------------|---------------|------------------|---------------|
| | Accrued interest | Other assets* | Accrued interest | Other assets* |
| | HK\$ Mn | HK\$ Mn | HK\$ Mn | HK\$ Mn |
| Other assets overdue for | | | | |
| - 6 months or less but over 3 months | - | 8 | - | - |
| - 1 year or less but over 6 months | - | - | - | - |
| - Over 1 year | - | - | - | 5 |
| | - | 8 | - | 5 |
| Rescheduled assets | - | 4 | - | - |
| Total other overdue and rescheduled assets | - | 12 | - | 5 |

* Other assets refer to trade bills and receivables.

(c) Repossessed assets

| | 2011 | 2010 |
|------------------------------------|---------|---------|
| | HK\$ Mn | HK\$ Mn |
| Repossessed land and buildings * | 22 | 8 |
| Repossessed vehicles and equipment | - | - |
| Total repossessed assets | 22 | 8 |

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

* The balance included HK\$4 million (2010: HK\$2 million) relating to properties that were contracted for sale but not yet completed.

STATEMENT OF COMPLIANCE

- (1) In preparing the accounts for 2011, the Bank has fully complied with the Banking (Disclosure) Rules.
- (2) Being the largest independent local bank in Hong Kong, the Bank is committed to maintaining the highest corporate governance standards. The Board considers such commitment essential in balancing the interests of shareholders, customers and employees; and in upholding accountability and transparency.

The Bank has complied with all the Code Provisions set out in Appendix 14 Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the accounting year ended 31st December, 2011, except for a deviation from Code Provision A.2.1 of the Code which is explained below:

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

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

PAYMENT OF SECOND INTERIM DIVIDEND (IN LIEU OF FINAL DIVIDEND) FOR 2011

The Board of the Bank has resolved to change the current practice of paying an interim dividend and a final dividend by paying two interim dividends (i.e. first interim dividend and second interim dividend in lieu of final dividend) with effect from the financial year ended 31st December, 2011.

Instead of recommending a final dividend, the Board has declared a second interim dividend (in lieu of final dividend) for the year ended 31st December, 2011 ("2011 Second Interim Dividend") of HK\$0.51 per share (2010 final dividend: HK\$0.56 per share), which, together with the interim dividend of HK\$0.43 per share paid in September 2011, will constitute a total dividend of HK\$0.94 per share (2010: HK\$0.94 per share) for the full year. The 2011 Second Interim Dividend will be paid on Tuesday, 27th March, 2012 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, 6th March, 2012 ("Scrip Dividend Scheme"). Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Tuesday, 6th March, 2012.

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 Tuesday, 27th March, 2012.

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 2011 Second Interim Dividend, the Register of Members of the Bank will be closed on Monday, 5th March, 2012 and Tuesday, 6th March, 2012. In order to qualify for the 2011 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, 2nd March, 2012.

- (b) For the purpose of determining shareholders who are entitled to attend and vote at the 2012 Annual General Meeting to be held on 24th April, 2012 (“2012 AGM”), the Register of Members of the Bank will be closed on Monday, 23rd April, 2012 and Tuesday, 24th April, 2012. In order to qualify for attending and voting at the 2012 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. Friday, 20th April, 2012.

DEALINGS IN LISTED SECURITIES OF THE BANK

During the year ended 31st December, 2011, the Bank purchased and redeemed GBP37.737 million face value of the 6.125% step-up perpetual subordinated notes qualifying as supplementary capital, which were issued on 13th March, 2007 (the “Notes”). The Notes are listed on the Singapore Stock Exchange. Save for the purchase and redemption of the Notes, there was no purchase, sale or redemption by the Bank or any of its subsidiaries, of listed securities of the Bank during the year ended 31st December, 2011.

CHAIRMAN'S STATEMENT

– STRATEGY AND FUTURE PROSPECTS

Weakness prevailed in the major global economies in 2011, as the sovereign debt and banking crises, geopolitical events, natural disasters and tight monetary policy in China combined to undermine the modest recovery that had emerged in 2009 and 2010. The financial sector exhibited particular weakness, despite ultra-low interest rates. Concerns over sovereign debt and new capital rules under Basel III led many major international banks to curtail lending and downsize their balance sheets by divesting non-strategic assets.

The BEA Group successfully overcame these macro challenges in 2011, and enters 2012 in a good position. With a clear focus on the buoyant economies of the Greater China region, BEA's profit attributable to owners of the parent for the year 2011 rose to a new record, up 3.2% to HK\$4,358 million. Core business performance continued to shine, with net interest income up 22.8% and net fee and commission income up 13.6% year-on-year. The Board of Directors has declared a second interim dividend (in lieu of final dividend) of HK\$0.51 per share for the year ended 31st December, 2011, bringing the dividend for the year to HK\$0.94 per share.

Going forward, the BEA Group will further optimise its allocation of resources, enhance asset and liability management, and broaden the range of financial services provided to customers throughout Greater China in order to further build on the Group's multi-year growth trend.

The BEA Group's business on the Mainland is quickly reaching critical mass. Having expanded its branch network to over 100 outlets in 2011, The Bank of East Asia (China) Limited ("BEA China") now manages strong regional banking networks in key markets such as the Yangtze River Delta and Pearl River Delta, and an extensive national banking network covering 30 cities. At the end of 2011, The People's Bank of China shifted towards a more accommodative monetary stance. In 2012, BEA China will further extend its reach by opening new branches and strengthening its award-winning electronic banking services, and build on its past success to further improve performance.

Having met the statutory loan-to-deposit requirements for Mainland-incorporated foreign banks ahead of schedule in the first half of 2011, lending at BEA China was no longer constrained by the need to improve its loan-to-deposit ratio. Interest income at BEA China grew by 43% last year and, at the end of 2011, the loan-to-deposit ratio stood at 69%, well below the statutory limit of 75%.

Efforts by both the Mainland and Hong Kong governments to expand the international role of Renminbi ("RMB") gained momentum in 2011, with Hong Kong at the centre of the policy initiatives. The BEA Group is ideally placed to take full advantage of these exciting changes. During the past year the Bank's overseas branches successfully expanded their RMB trade business, with Singapore recording a near doubling of business. The Group will continue to develop and launch new RMB products and services as opportunities emerge.

The Bank's Hong Kong business will see all-round development in 2012. Local loan demand, particularly from Mainland Chinese enterprises, experienced strong growth in 2011, and the Bank took advantage of this demand to expand its loan portfolio and increase margin on both new loans and those coming up for renewal. Improvements in core lending business will remain a key focus of the Bank's operations in 2012. The Bank continues to be a good partner for the small and medium size enterprise sector, and will further build on its expertise in this area in 2012. At the same time, the Bank will step up efforts to improve fee income, focussing in particular on its wealth management business, insurance products and treasury.

The Bank will also continue to enhance operational efficiency and productivity by further streamlining branch and back office operations in 2012. New iPhone/Android Applications were introduced in 2011 to encourage users to conduct transactions over the Bank's highly secure Internet and mobile-banking networks. This service enjoyed strong take-up, and the Bank will further increase both penetration and services in order to promote the full range of BEA Group consumer products, ranging from banking services, to securities transactions, to insurance.

Meanwhile, the Bank is expanding its efforts to attract students and recent graduates as clients, in order to build long-term relationships with tomorrow's leaders and high earners. The Bank has the largest branch network at tertiary institutions in Hong Kong, and some 90% of student clients maintain their relationships with BEA after graduation.

In the coming year, we expect the external operating environment to remain challenging. In view of this, the BEA Group will strive to develop its unique strengths, focus on its core areas of operation, and offer greater value to its customers through product innovation and the provision of superior customer service.

I would like to thank our Bank's Board of Directors and the directors of our subsidiaries and associated companies for their strong governance, and for their guidance in establishing our Group's strategic direction. I would also like to thank the members of BEA's management as well as our staff members for their hard work and dedication to our business. Finally, I thank our shareholders and customers for their long-standing loyalty and steadfast support.

David LI Kwok-po

Chairman & Chief Executive

Hong Kong, 14th February, 2012

REPORT OF THE CHIEF EXECUTIVE AND SENIOR MANAGEMENT

FINANCIAL REVIEW

Financial Performance

For the year 2011, the Group achieved a profit attributable to owners of the parent of HK\$4,358 million, representing an increase of HK\$134 million or 3.2%, compared to the HK\$4,224 million earned in 2010. Basic earnings per share were HK\$1.96. Return on average equity and return on average assets were 9.5% and 0.7%, respectively.

As a result of satisfactory growth in the Bank's loan portfolio and trade finance business, the Group's net interest income increased by HK\$1,720 million, or 22.8%, to HK\$9,263 million. Net fee and commission income rose by HK\$400 million, or 13.6%, to HK\$3,342 million. Due to an unexpected deterioration in the global economic environment arising from the Eurozone debt crisis, we sustained losses in trading activities and investments designated at fair value through profit or loss in 2011, amounting to a total of HK\$471 million. As a result, non-interest income decreased by HK\$131 million, or 3.7%.

Total operating expenses increased by 15.8% to HK\$7,992 million, as the Group continued to invest in its future growth in China. The cost-to-income ratio was 62.9% in 2011.

Operating profit before impairment losses was HK\$4,723 million, an increase of HK\$501 million, or 11.8%, as compared with 2010.

The charge for impairment losses on loans and advances decreased by HK\$210 million, or 73.7%, to HK\$75 million, reflecting improving credit quality. Total impairment losses decreased by HK\$171 million, or 56.1%. This reflected good credit management of the Bank.

Operating profit after impairment losses was HK\$4,588 million, an increase of 17.2%.

In 2010, BEA completed the disposal of a 70% interest in a banking subsidiary in Canada and recorded a net profit of HK\$230 million. In 2011, the profit generated from the disposal of a further 10% interest in the same banking subsidiary was HK\$71 million.

Net profit on disposal of available-for-sale financial assets was HK\$59 million. Valuation gains on investment properties decreased to HK\$404 million (2010: HK\$426 million) whereas the profit on sale of fixed assets increased to HK\$140 million (2010: a loss of HK\$6 million). Due to the strong performance of associates, the Group shared after-tax profits from associates of HK\$435 million.

After accounting for income taxes, profit after taxation rose to HK\$4,451 million, an increase of 3.4%, over the HK\$4,303 million recorded the previous year. Profit attributable to owners of the parent rose to HK\$4,358 million, an increase of 3.2%.

Financial Position

Total consolidated assets of the Group stood at HK\$611,402 million at the end of 2011, an increase of 14.5% over the HK\$534,193 million at the end of 2010. Gross advances to customers increased by 8.4% to HK\$321,890 million. Total equity increased to HK\$52,044 million, up 7.0%.

Total deposits (including certificates of deposit issued) grew by 12.6% to HK\$478,837 million, while total deposits from customers rose by 11.3% to HK\$467,354 million. Demand deposits and current account balances decreased by HK\$2,803 million, or 4.7%, compared to the balance at year-end 2010. Savings deposits decreased to HK\$77,452 million, a drop of 6.0%, while time deposits increased to HK\$333,006 million, an increase of 19.9%, when compared with the year-end position of 2010.

After taking into account all certificates of deposit issued, the loan-to-deposit ratio was 67.2% at the end of December 2011, 2.6 percentage points lower than the 69.8% reported at the end of 2010.

RECOGNITION

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 Investors 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 | Stable |

Awards

The Bank of East Asia

- "2011 Best SME's Partner Award" (*for four consecutive years*)
 - *The Hong Kong General Chamber of Small & Medium Business*
- "The Highest Growth Rate in 2010 Number of Open Cards in Hong Kong – Champion", "The Highest Growth Rate in 2010 Premium Product Cardholder Spending in Hong Kong – Champion", "The Highest Growth Rate in 2010 Cardholder Spending in Hong Kong – Champion", and "The Highest Growth Rate in 2010 Merchant Purchase Volume in Hong Kong – 2nd Runner Up"
 - *MasterCard Worldwide*
- "Lowest Chargeback-to-Sales Ratio Award" as part of Visa's 2010 Service Quality Performance Awards Program (*for the second consecutive year*)
 - *VISA Worldwide*
- "Hong Kong Leaders' Choice 2011 – Excellent Brand of Mobile Banking Award"
 - *Metro Finance*
- "Capital CEO Supreme Service Awards 2011 – Supreme Mobile Banking Services"
 - *CAPITAL CEO Magazine*
- "Best Practice in Technology Innovation Award 2011"
 - *Best Practice Management Magazine*

The Bank of East Asia (China) Limited ("BEA China")

- "2011 Best Customer Services Award – Banking Institutions in Shanghai"
 - *Shanghai Banking Association*
- "Asian Banks Competitiveness Ranking – 2011 • Best Retail Bank in Asia"
 - *21st Century Business Herald*
- "2011 China Internet Banking Union Most Innovative Personal Internet Banking Product Award" for BEA China's Cyberbanking service
 - *China Internet Banking Union and China Computer Users Association*

- “2011 Most Respected Foreign Bank in China” in The Most Respected Bank & Best Retail Bank Rankings in China awards programme
 - *Moneyweek*

Other Subsidiaries

- Bank of East Asia (Trustees) Limited
 - “The Best MPF Scheme” Award in “Prime Awards for Banking and Finance Corporations 2011”
 - *metroBox Magazine*
 - “CAPITAL Merit of MPF Achievement” Award in “CAPITAL Merits of Achievements in Banking and Finance 2011” (for the second consecutive year)
 - *CAPITAL Magazine*
- Blue Cross (Asia-Pacific) Insurance Limited
 - “The Most Favourite Travel Insurance Company Award 2011” (for the seventh consecutive year)
 - *Weekend Weekly Magazine*
 - “ProChoice Award 2011 – Medical & General Insurance” (for the third consecutive year)
 - *CAPITAL WEEKLY Magazine*
 - “Quality Life Award 2011 – Quality Insurance Service Award”
 - *Liza Magazine*
- Credit Gain Finance Company Limited
 - “Best of the Best 2011 – The Best Financial Credit Service” (for the second consecutive year)
 - *CAPITAL Magazine*
- BEA Union Investment Management Limited
 - “Best of the Best for Executives 2011 – The Best Fund Manager”
 - *CAPITAL Magazine*

OPERATIONS REVIEW

The Hong Kong economy sustained solid growth in 2011, despite a decline in export growth at the end of the year stemming from the European economic slowdown. Growth was lifted by Mainland tourist spending and increased domestic demand underpinned by low unemployment. Residential property prices edged higher despite the measures introduced by the Hong Kong Government to curb property speculation.

In Mainland China, the Central Government’s tight monetary policies successfully suppressed inflationary pressure and property prices, paving the way for a soft landing. Gross Domestic Product growth slightly decelerated to 9.2% in 2011 from 9.6% a year earlier, while the Consumer Price Index eased from its three-year peak of 6.5% in July 2011 to 4.1% in December 2011.

To dampen inflationary pressure and cool down the Mainland’s property market, the People’s Bank of China (the “PBOC”) raised the Reserve Requirement Ratio (“RRR”) six times, each time by 0.5%, and the Renminbi (“RMB”) benchmark rates three times, each time by 0.25%, during 2011. As growth slowed toward the end of the year, the Central Government fine-tuned its monetary policy and reduced the RRR for the first time in three years, cutting it by 0.5% at the end of November 2011.

Business – Hong Kong

At 31st December, 2011, BEA's total loans to customers and trade bills were 13.4% higher than that at the end of 2010. Customer deposits were 1.3% higher.

Corporate and Commercial Banking

Hong Kong's corporate loan market experienced strong overall growth in 2011. Corporate loan demand from Hong Kong and Mainland Chinese enterprises was driven by healthy economic conditions, the launch of major infrastructure projects, and the relatively lower cost of financing in Hong Kong compared to the Mainland. The Bank's corporate loan and trade bills portfolio grew by about 21% during 2011. Pricing continued to improve and the Bank's impaired loan ratio remained at a very low level.

With its extensive networks in Hong Kong and Mainland China, BEA is in a strong position to serve customers with business interests in both markets, and meeting their onshore and offshore financing needs including cross-border trade finance, property development project financing, and loans against Renminbi-related assets. Business from the Hong Kong-China integrated platform accounted for about 28% of the Bank's corporate and commercial loan and trade finance portfolio at the end of 2011. Treasury product sales to corporate customers also grew, as a result of BEA's extensive presence in the two markets.

Blue-chip and mid-cap companies continued to seek club deal facilities from their relationship bankers in 2011, and BEA actively participated in providing such facilities. A number of foreign banks sold down their syndicated loan portfolios covering top-tier Hong Kong and Mainland companies due to tightened liquidity. BEA took advantage of this opportunity to acquire these loans at attractive discounts, thus maintaining the quality of the Bank's loan book with an improved average yield.

During the year, the Bank made good progress in growing its small and medium enterprise ("SME") loan business. The Bank's Business Ready Cash programme continued to be popular with SMEs, recording loan portfolio growth of 35% year on year. Active development of business networks in the area of equipment financing, primarily for SME customers, resulted in a 19% expansion of the equipment-financing portfolio, year on year, and a rise in the corresponding market share.

Retail Banking

During the year, BEA continued to improve its branch network in Hong Kong. Two new branches were opened in Shun Tak Centre and Tsuen Wan Fou Wah Centre. The Bank also opened seven SupremeGold Centres and six i-Financial Centres, and relocated four branches to more prominent locations. As of 31st December, 2011, BEA operated a total of 88 branches, 62 SupremeGold Centres, and six i-Financial Centres in Hong Kong.

To capture fast-growing opportunities in the RMB business, a thematic campaign was launched in March 2011. Based on the positioning statement, "中港聯動" ("China and Hong Kong – moving forward together"), the campaign promoted the Bank's competitive edge, particularly in respect of its comprehensive range of services, solid cross-border business experience, and extensive network in Mainland China and Hong Kong.

The Bank also stepped up its promotional efforts to attract more RMB deposits in Hong Kong in 2011. With the launch of specific promotional and target-oriented campaigns, the Bank's total RMB deposits in Hong Kong grew by 37.6%, year on year.

BEA has devoted considerable effort to developing an exciting credit card brand image, providing special offers and promotions in order to encourage card spending and usage. During 2011, these included year-round offers at restaurants and cinemas, special promotions at well-known restaurant chains, and exclusive priority booking services for pop concerts. BEA also rolled out a variety of spending stimulus programmes targeted at different customer segments, such as high spenders, Asia Miles customers, and frequent travellers to increase overall card usage. Due to these efforts, the Bank recorded double-digit growth in credit card receivables for 2011. The Bank's merchant acquiring business recorded over 20% rise in sales volume, well above the market average. In addition, BEA's 2011 Tax Loan programme for personal customers contributed significantly to the growth of the Bank's consumer lending business, which posted strong results for the year.

Competition in the mortgage lending business was intense at the beginning of the year. Squeezed margins prompted BEA to adopt a prudent approach to soliciting new mortgage business. In view of the improving interest spread in the market, the Bank became more active in its mortgage lending business in the fourth quarter. In addition, BEA was among the first banks to participate in the Hong Kong Mortgage Corporation's Reverse Mortgage Programme, launched in July 2011. Under the terms of the programme, senior citizen property owners are entitled to mortgage their property to BEA in exchange for monthly cash payouts to cover personal expenses, while continuing to reside in their premises.

To reinforce its image as a leader in the mobile banking industry, the Bank continued to enrich the content and capability of its iPhone application in 2011 by introducing new or enhanced features including "Stock Watch & Fast Trade" and MPF functions. BEA also targeted young customers by launching a new branding campaign that included a television commercial and a series of interactive games. As a result, BEA recorded an increase of nearly 125% in the download of BEA mobile applications for iPhone and Android phones, and more than 75% in the number of mobile banking users, year on year.

Insurance and MPF Services

In 2011, the Bank's life insurance business achieved encouraging growth in new premium income, with a 32% rise year on year. The results were sustained by the newly launched short-term savings plans as well as RMB-denominated products, which effectively met customer demand for short-term savings products with guaranteed returns.

Blue Cross (Asia Pacific) Insurance Limited ("Blue Cross"), the Bank's wholly-owned general insurance arm, registered steady premium income growth in 2011. The medical insurance business performed particularly well, providing Blue Cross with double-digit growth in premium income. In addition, premium income generated through the Company's e-platform grew more than 50%, year on year.

Bank of East Asia (Trustees) Limited ("BEA Trustees"), BEA's wholly-owned MPF service provider, enjoyed strong growth in its MPF business, with more than 75,000 new members joining the BEA MPF schemes in 2011, bringing the total number of members under the two BEA MPF Schemes to more than 509,000. Total assets under management as of 31st December, 2011 exceeded HK\$12.8 billion.

BEA Trustees launched an MPF feature in the BEA iPhone application in September 2011 to enable members to check fund prices more conveniently. Members can now check the latest fund prices and obtain MPF news and offers through this innovative feature.

Investment Services

Equity markets performed well in the first quarter of 2011. This was followed by an unexpected period of prolonged consolidation and extreme volatility as the downturn in the US and Europe worsened. Anticipating a change in investment appetite, the Bank switched focus to income-oriented investment products with an Asian bias. In June 2011, the Bank re-launched the BEA Union Investment Asian Bond and Currency Fund. In addition, a variety of structured products linked to different underlying asset classes catering for different risk appetites were also offered in Hong Kong and China throughout the year.

To strengthen its position in RMB product development and to meet the burgeoning demand for RMB-denominated investments, the Bank introduced a number of offshore RMB-denominated fixed income funds, such as the BEA Union Investment Global RMB Opportunity Fund. The fund takes advantage of the ample offshore RMB currency liquidity and the wider spectrum of RMB-based securities available outside the Mainland. Furthermore, the Bank added the RMB to its list of tradable currency pairs available to corporate customers making currency-linked deposits.

As part of its service platform upgrade, BEA recently extended the dealing channels for equity-linked deposits to Cyberbanking's Internet channel. Customers can now make rate enquiries, re-assess investors' risk tolerance level before placing orders for various linked deposits via Cyberbanking's Internet channel.

During 2011, BEA's mutual fund business strengthened by 27.6% in turnover and 32.4% in revenue.

Private Banking and Trust & Fiduciary Services

Private Banking achieved satisfactory results in 2011, with revenue growth on track and assets under management rising by 12.5%, year on year.

In response to increasing uncertainty in the global financial markets, private banking customers took a cautious approach to investments and preferred to hold more assets in cash equivalents, especially RMB, than in past years. Catering to this sentiment, BEA's Private Banking Department selected industries and stocks with lower volatility, and securities that emphasised yield enhancement.

BEA also noted a growing interest in foreign equity trades. To capture this opportunity, a night desk service for foreign equity trading was launched in mid-2011. Extending service hours to the close of the US market through the night desk has been well received by customers.

Leveraging the BEA Group's strong high net worth customer base in Hong Kong and Mainland China, the Bank successfully increased its total number of private and corporate trust clients by 14% in 2011. In addition to serving private clients, BEA's Trust & Fiduciary Services Team provides ongoing fund administration and trustees services to institutional clients for their private investment funds and authorised unit trusts in Hong Kong.

Broking Operations

Volatility in the global markets kept investors on the sidelines during most of 2011, with the Stock Exchange of Hong Kong recording virtually flat market turnover, year on year. The European sovereign debt crisis and China's economic slowdown clouded market prospects. Commission income derived from securities and futures broking business declined when compared with 2010. Interest income from staggings fell on the lacklustre performance of most initial public offerings and poor overall market sentiment.

To enhance its competitiveness, BEA upgraded its trading systems and launched new products and services including stock borrowing and lending at the end of 2011. New products and services in the pipeline for 2012 include trading in London gold and the provision of online trading services for stocks and futures in major overseas markets. Moreover, the Bank will continue to leverage on the extensive branch network of the BEA Group, particularly in Mainland China, Macau, and Taiwan, to further expand its customer base.

Business – Greater China ex-Hong Kong

Mainland China Operations

Despite global economic uncertainty, The Bank of East Asia (China) Limited ("BEA China") reported steady growth in 2011, recording a rise in pre-provision operating profit of 65.9%, year on year.

During the year under review, BEA China built a solid deposit base while prudently expanding its loan portfolio. As of the end of 2011, total advances to customers and deposits increased by 11.7% and 23.2% year on year, respectively. As of year-end 2011, BEA China reported a loan-to-deposit ratio of 69.2%, thereby achieving the required loan-to-deposit ratio of 75% set by the China Banking Regulatory Commission (the "CBRC"). In addition, the subsidiary bank continued to maintain a quality loan portfolio in 2011 with a low impaired loan ratio of 0.09% as of the end of the year.

To better serve the needs of customers in major urban centres nationwide, BEA China continued to expand its network in 2011, opening full-service branches, in Harbin and Changsha, and 12 sub-branches. In December 2011, BEA China celebrated the opening of its 100th outlet on the Mainland, a sub-branch in Zhangjiang, Shanghai. The Shanghai Zhangjiang Sub-branch also enjoys the distinction of being the first outlet specially designed to serve the needs of small business, a reflection of BEA China's commitment to the Chinese government's policies for supporting the development of small enterprises. In September 2011, BEA China opened its sixth "cross-location" sub-branch, in Dongguan. Other "cross-location" sub-branches are located in Foshan, Zhongshan, Huizhou, Zhaoqing, and Jiangmen in Guangdong Province. In November 2011, BEA China's first "intra-city" sub-branch¹ commenced business in Kunshan.

¹ The CBRC allows foreign banks to set up "intra-city" sub-branches in any county or city with a high concentration of external-oriented enterprises.

BEA China maintained its status as an operator of one of the largest foreign banks on the Mainland. As of the end of 2011, BEA China operated 23 branches and 80 sub-branches in 30 cities. In addition, a booking branch in Shanghai, a representative office in Fuzhou, and a rural bank in Fuping County, Shaanxi Province are operated directly by BEA.

BEA China opened two new 24-hour self-service banking centres, in Dalian and Hangzhou, in 2011. By the end of the year, BEA China operated 12 24-hour self-service banking centres and over 410 ATMs in major urban areas nationwide.

To provide state-of-the-art retail banking services for its customers, BEA China was the first foreign bank approved by the PBOC to issue China UnionPay Renminbi integrated circuit cards in December 2011.

Subsequent to receiving approval from the PBOC in December 2010 to issue RMB financial bonds worth up to RMB5 billion in China's interbank bond market, BEA China issued RMB financial bonds in an aggregate principal amount of RMB2 billion and RMB3 billion in March and November 2011, respectively. The proceeds raised from the bond issues were used to support BEA China's business development and expansion plans, and to optimise its asset and liability structure.

Macau and Taiwan Operations

BEA operates a full-service branch and four sub-branches in Macau. In April 2011, the Macau Branch expanded the range of products available to customers to include unit trusts, as well as equity-linked and currency-linked investment products. To capture business potential arising from the relaxation of RMB cross-border trade settlement restrictions, the Macau Branch has been working closely with branches operated by BEA China to promote RMB banking services to customers.

In Taiwan, BEA operates two branches, one each in Taipei and Kaohsiung (collectively, the "Taiwan branches") and an Offshore Banking Unit ("OBU") in Taipei, through which it provides a wide range of foreign currency services to offshore customers. Services launched in 2011 included trust services for real estate projects by the Taiwan branches and RMB services by the OBU. BEA also offers a wide range of wealth management services through the Taipei and Taichung branches of its wholly-owned subsidiary, BEA Wealth Management Services (Taiwan) Limited.

Business – International

In 2011, BEA's international operations continued to make progress on the back of the previous year's turnaround, posting record earnings for the year ended 31st December, 2011.

Capitalising on Singapore's robust economy, BEA's Singapore Branch registered another year of strong earnings, underpinned by growth in interest and non-interest income, loan assets, and deposits. Strengthening its business collaboration with BEA China during the year, the Singapore Branch also recorded strong growth in RMB trade financing and ancillary business activities.

Serving as BEA's regional hub in Southeast Asia, the Singapore Branch also capitalised on regional business opportunities through its affiliation with the AFFIN Holdings Berhad in Malaysia and PT Bank Resona Perdania in Indonesia. In addition, BEA's investments in these two banks continued to yield healthy growth and steady earnings. In 2012, the Singapore Branch aims to leverage the BEA Group's resources and relationships to further penetrate the local, regional, and China markets.

BEA's operations in the United Kingdom continued to benefit from the strong demand for UK property from Hong Kong and other Asian investors, and its residential and commercial mortgage portfolio grew satisfactorily. To tap the strong interest in overseas investment by high net worth customers on the Mainland, the Bank's UK operations will continue to develop closer ties with BEA China.

BEA's operations in the United States performed well despite a persistently weak domestic economy. After-tax profit soared as a result of improvement in both net interest and fee incomes. The quality of the Bank's assets continued to improve, with the impaired loan ratio declining further from its position at the end of 2010.

In January 2011, the Bank entered into a share sale and purchase agreement with the Industrial and Commercial Bank of China Limited ("ICBC"). According to the terms of the agreement, ICBC will acquire an 80% stake in The Bank of East Asia (U.S.A.) N.A. from BEA, pending approval from the Federal Reserve Bank. Following the completion of the transaction, BEA will focus on its wholesale and corporate banking businesses through its branches in New York and Los Angeles.

Other Subsidiaries

Credit Gain Finance Company Limited

During the year under review, Credit Gain Finance Company Limited ("Credit Gain") opened new branches in Kowloon Bay and Prince Edward, increasing its network to a total of 20.

Despite the challenges of operating in Hong Kong's mature and highly competitive personal loan market, Credit Gain achieved double-digit growth in its total loan portfolio, year on year. This success can largely be attributed to the Company's flexible business strategies, innovative marketing campaigns, and emphasis on quality of customer service. Looking ahead, Credit Gain will continue to focus on enhancing the value of its products and building its brand in the sub-prime loan market.

Tricor Holdings Limited

For a second consecutive year, Tricor Holdings Limited ("Tricor"), reported record-high revenue. Fee revenue generated in 2011 amounted to more than HK\$980 million. However, while Tricor was a key contributor to the BEA Group's fee and commission income earnings, increased operating and staff costs put pressure on the Company's profit margin during the year.

Mindful of the global economic uncertainty, Tricor adopted a careful approach to business development while it continued to seek opportunities to expand its global network. In May 2011, Tricor acquired a reputable corporate services firm in Japan, a country that represents a significant share of the professional services market in Asia. In June, Tricor, together with leading share registration service providers in the UK and Australia, established the Global Share Alliance, a strategic alliance that aims to facilitate the provision of share registration and investor services across markets. In December, Tricor and SKP Group, a prestigious professional services group in India, set up a joint venture called SKP Tricor Corporate Services Pvt. Ltd. to provide corporate and outsourcing services in India, one of the fastest growing economies in the world.

Tricor currently employs 1,550 professional and support staff members and operates a network covering 27 cities in 15 countries and territories throughout Asia and other parts of the world. Tricor will continue to focus on maintaining its market leading position in the field of integrated business, corporate, and investor services by exploring opportunities to expand the range and reach of its professional services.

BEA Union Investment Management Limited

Despite the impact of market volatility on its business, BEA Union Investment Management Limited ("BEA Union Investment"), a joint venture between BEA and Union Asset Management Holding AG, succeeded in registering a single digit rise in assets under management, year on year. This growth was due in large part to the successful launch of several key retail products and the cross-selling of products to existing customers of the Bank. Demand for RMB-asset class investments also supported BEA Union Investment's growth during the year. In the year ahead, BEA Union Investment will leverage the Bank's strengths to expand its retail distribution channels, and work closely with BEA to develop its MPF business in preparation for the Employee Choice Arrangement, which is expected to be rolled out in 2012.

During 2011, BEA Union Investment established its first foothold in Mainland China by acquiring an 11% stake in Golden Eagle Fund Management Limited ("Golden Eagle"), a China fund management company set up in Shenzhen, China in 2002. In 2012, Golden Eagle will focus on expanding its retail distribution network as well as setting up an institutional business in China. Through its investment in Golden Eagle, BEA Union Investment is well placed to further penetrate the fund management market on the Mainland.

Blue Care Group

A joint collaboration between BEA and The University of Hong Kong, Blue Care Group ("Blue Care") recorded a rise in fee income of 22% for medical services provided. Increased marketing activity, enhanced service support to customers and affiliated partners, and a rise in the number of referrals from existing customers all contributed to this increase in growth.

Blue Care will continue to focus on diversifying its business channels and increasing its market share by delivering greater service value and cultivating its relationships with its customers and service providers.

Our People

As of 31st December, 2011, the BEA Group was supported by 12,238 employees:

| | |
|----------------------------|--------|
| Hong Kong | 5,715 |
| Greater China ex-Hong Kong | 5,271 |
| Overseas | 1,252 |
| <hr/> | |
| Total | 12,238 |

Tight labour conditions in 2011 continued to present challenges to the Bank in terms of securing and retaining skilled banking professionals.

In view of its staffing needs and the competitive market environment, the Bank utilised various recruitment channels including print and online advertising, recruitment days, campus talks at local universities, and an online application platform for trainee positions. The Bank's staff referral programme was also refined to attract more referrals.

To retain high calibre professionals, the Bank introduced new staff benefits to enhance the competitiveness of its employee benefits package. In addition, the Bank began upgrading and implementing its new human capital management system to enhance its human resources management.

In compliance with the new Corporate Governance Codes in Competence and Ethical Behaviour issued by the Hong Kong Monetary Authority ("HKMA") in July 2011, the Bank reviewed its existing practices and policies in regard to recruitment, performance management, and training and made changes as necessary to ensure full compliance. To minimise competence-related risk, staff members were carefully evaluated against competency standards to ensure they possessed correct and adequate skills to perform their duties.

BEA also revised its Code of Conduct for employees in response to changes specified in the new Corporate Governance Codes, particularly in regard to ethical behaviour and professionalism, designed to further protect the interests of the Bank's customers and staff members.

The Bank continued to place emphasis on training and development. A number of different programmes, including knowledge-based and personal development programmes, were organised for staff members at all grade levels.

Risk Management

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

The risk management mechanisms are built around a centralised framework and include the 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 via the Risk Management Committee to the Board of Directors, to ensure compliance with the Bank's policies, and the legal and regulatory requirements in Hong Kong, China, and overseas.

The Bank's risk tolerance level is approved by the Board while its risk management policies and risk control limits are approved by the Board or its delegated specialised risk management committees. Risk management mechanisms have been established at different levels throughout the Group. This is supplemented by active management involvement, effective internal controls, and comprehensive audits.

Certificates of Deposit and Other Debt Securities Issued, and Loan Capital

In 2011, BEA issued HKD, USD, RMB and SGD fixed rate certificates of deposit with a face value of HK\$1,590 million, US\$224 million, RMB1,158 million and SGD70 million, respectively; HKD, USD, and GBP floating rate certificates of deposit with a face value of HK\$807 million, US\$10 million and GBP30 million, respectively; HKD and USD zero coupon certificates of deposit with a face value of HK\$525 million and US\$259 million, respectively. The Bank redeemed certificates of deposit amounting to an equivalent of HK\$13,721 million upon maturity.

At the end of December 2011, the face value of the outstanding certificates of deposit issued was HK\$11,482 million, with a carrying amount equal to HK\$11,483 million.

Maturity Profile of Certificates of Deposit Issued

As of 31st December, 2011

(All figures expressed in millions)

| | <u>Currency</u> | <u>Total Face Value</u> | <u>Year of Maturity</u> | | | | |
|---|-----------------|-----------------------------|-------------------------|--------------|-------------|-------------|-------------|
| | | | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
| Floating Rate | | | | | | | |
| Certificates of Deposit | | | | | | | |
| Issued in 2010 | USD | 60 | 20 | 40 | | | |
| Issued in 2011 | HKD | 807 | 627 | 100 | | 80 | |
| Issued in 2011 | USD | 10 | | 10 | | | |
| Issued in 2011 | GBP | 30 | 30 | | | | |
| Fixed Rate (Note) | | | | | | | |
| Certificates of Deposit | | | | | | | |
| Issued in 2010 | HKD | 966 | 535 | | | 431 | |
| Issued in 2011 | HKD | 1,590 | 587 | | 290 | 100 | |
| Issued in 2011 | USD | 224 | 194 | | 10 | 20 | |
| Issued in 2011 | RMB | 1,158 | 1,158 | | | | |
| Issued in 2011 | SGD | 70 | 70 | | | | |
| Zero Coupon | | | | | | | |
| Certificates of Deposit | | | | | | | |
| Issued in 2007 | USD | 140 | | 40 | 50 | 50 | |
| Issued in 2011 | HKD | 525 | 525 | | | | |
| Issued in 2011 | USD | 259 | 259 | | | | |
| Total Certificates of Deposit issued in HKD equivalent | | | 11,482 | 8,160 | 799 | 756 | 919 |
| | | | | | | | 848 |

Note:

Associated interest rate swaps have been entered for long-term Fixed Rate Certificates of Deposit

In 2011, BEA China issued RMB fixed rate debt securities with a face value of RMB5,000 million and redeemed fixed rate debt securities amounting to RMB4,000 million upon maturity.

At the end of December 2011, the face value of the outstanding of other debt securities issued was equivalent to HK\$6,411 million, with a carrying amount equal to HK\$6,393 million.

Maturity Profile of Other Debt Securities Issued

As of 31st December, 2011

(All figures expressed in millions)

| | <u>Currency</u> | <u>Total Face Value</u> | <u>Year of Maturity</u> | |
|---|-----------------|-----------------------------|-------------------------|--------------|
| | | | <u>2012</u> | <u>2013</u> |
| Floating Rate | | | | |
| Issued in 2010 | GBP | 20 | 20 | |
| Fixed Rate | | | | |
| Issued in 2011 | RMB | 5,000 | | 5,000 |
| Total Other Debt Securities issued in HKD equivalent | | 6,411 | 241 | 6,170 |

In 2011, BEA issued USD loan capital with a face value of US\$500 million and redeemed loan capital amounting to GBP38 million.

At the end of December 2011, the face value of the outstanding loan capital issued was equivalent to HK\$16,363 million, with a carrying amount equal to HK\$16,741 million.

Maturity Profile of Loan Capital

As of 31st December, 2011

(All expressed in millions)

| | | <u>Currency</u> | <u>Total Face Value</u> | <u>Year of Maturity</u> | | | |
|--|--------|-----------------|-----------------------------|-------------------------|--------------|--------------|------------------|
| | | | | <u>2017</u> | <u>2020</u> | <u>2022</u> | <u>Perpetual</u> |
| Issued in 2007 | Note 1 | GBP | 262 | | | | 262 |
| Issued in 2007 | Note 2 | USD | 600 | 600 | | | |
| Issued in 2010 | | USD | 600 | | 600 | | |
| Issued in 2011 | Note 3 | USD | 500 | | | 500 | |
| Total Loan Capital issued in HKD equivalent | | | 16,363 | 4,660 | 4,660 | 3,883 | 3,160 |

Notes:

1. Callable on 21st March, 2012 and on each interest payment date thereafter
2. Callable on 22nd June, 2012
3. Callable on 4th May, 2017

David LI Kwok-po

Chairman & Chief Executive

Hong Kong, 14th February, 2012

As at the date of this announcement, the Board of Directors of the Bank comprises Dr. the Hon. Sir David LI Kwok-po (Chairman & Chief Executive); Professor Arthur LI Kwok-cheung* (Deputy Chairman), Dr. Allan WONG Chi-yun** (Deputy Chairman), Mr. WONG Chung-hin**, Dr. LEE Shau-kee**, 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** and Dr. Isidro FAINÉ CASAS*.

* Non-executive Directors

** Independent Non-executive Directors