BEA 東亞銀行 News Release 新聞稿

For Immediate Release

Hong Kong, 19th August, 2016

The Bank of East Asia, Limited
2016 Interim Results - Highlights
(for the six months ended 30th June, 2016)

- *We are making progress on our outlined business strategies and embarking on a 3-year cost-saving plan*
- *We are vigilantly monitoring our asset quality and reducing exposures in stressed sectors in China*
- *We are leveraging our unique franchise to maximise opportunities across our global network*

	HK$ Million
Profit attributable to owners of the parent from continuing operations - representing a decrease of 38.9% compared with the first half of 2015 - representing a decrease of 4.0% compared with the second half of 2015	1,981
Profit attributable to owners of the parent - representing a decrease of 37.5% compared with the first half of 2015 - representing a decrease of 3.4% compared with the second half of 2015	2,095
Return on average assets (annualised)	0.49%
Return on average equity (annualised)	4.75%
Net interest margin from continuing operations (annualised)	1.59%
Basic earnings per share from continuing operations	HK$0.65
Basic earnings per share	HK$0.69
Interim dividend per share (with scrip option)	HK$0.28
Dividend payout ratio	40.7%
Total consolidated assets	756,571
Total advances to customers and trade bills	463,432
Impaired loan ratio	1.23%
Total deposits	559,899
Loan to deposit ratio	80.2%
Average liquidity coverage ratio - first quarter - second quarter	151.3% 141.2%
Common Equity Tier 1 capital ratio	12.6%
Tier 1 capital ratio	14.0%
Total capital ratio	17.4%

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Speech by Dr. David K.P. Li, Chairman & Chief Executive of The Bank of East Asia, Limited ("BEA")

Economic conditions in Hong Kong and the Mainland deteriorated further during the first half of this year. Large sectors of both economies, including export trade, retail, and financials, are facing the most difficult conditions in years.

As stated at the time of our full year results in February, we anticipated that 2016 would be a challenging year. We announced then that we were implementing measures to combat the negative impact. Nonetheless, earnings were affected as demand contracted, and competition for good quality loans intensified.

For the first six months of this year, Profit Attributable to Owners of the Parent fell by 3.4% half on half to HK$2.1 billion. Basic Earnings per share were HK$0.69.

Shareholders will receive an interim dividend of HK$0.28 per share. This represents a payout ratio of 40.7%, compared to 31.2% a year ago.

Earlier this year, we shared with you five core priority areas for our business. I will now take a moment to reflect on the actions we have taken over the last six months.

First is our focus on asset quality and risk management.

Asset quality came under renewed pressure in the first half of this year, as small and medium-sized enterprises in Hong Kong ran into repayment difficulties following the devaluation of the Renminbi.

Meanwhile, the pace of non-performing loan formation on the Mainland slowed significantly, from 3.2% in the first half of 2015 to 1.45% in the first half of 2016.

As announced previously, we have created special teams to manage distressed assets at BEA China to facilitate loan recovery. BEA China had some success in recovering bad loans during the first half of this year. We will continue to monitor asset quality and take additional steps to reduce exposure in stressed sectors in China.

Our next focus area is to proactively control costs. With the continued deterioration of macro conditions, we took strong and effective action to further reduce our costs Group-wide. Operating expenses rose by just 0.5% in the year to 30th June, and we target zero growth in costs for the full year.

We initiated a three-year cost-saving plan at the beginning of this year, targeting a gross saving of HK$700m by the end of 2018. We have achieved 23% of this target to date, demonstrating our commitment to cost control as a priority for the Bank.

Doing more with less is now part of the culture at BEA; maximum efficiency and optimum use of resources are built in to everything that we do.

As previously announced, we instituted a headcount freeze at the start of 2016.

After a careful review of work processes in Hong Kong, we realigned certain business operations at the beginning of June. As part of this initiative, we closed all East Asia Securities retail outlets. Broking customers are now served wholly through our state-of-the-art digital, mobile and telephone channels.

Following the review of Mainland banking outlets announced last year, we are now in the process of consolidating outlets in order to meet performance targets and serve defined business objectives. We merged five sub-branches on the Mainland with existing outlets between January and June this year, and we anticipate that we will reduce the network by a further five sub-branches by the end of the year.

A full review of our local branch and ATM network in Hong Kong has also been completed. In the first six months, we reduced the total floor area of our Hong Kong network by 3.6%. We aim to achieve an 11% reduction by the end of this year and a 22.5% reduction by the end of 2018.

Our next core priority area is our investment in digital initiatives.

Our retail customers are increasingly opting for digital and mobile access to banking services. As we highlighted during our annual results presentation earlier this year, we continue to roll out our innovative digital branch concept. So far, we have converted 33 branches in Hong Kong. We are also continuing to upgrade and improve our capabilities in online services, both on our own and through partnerships.

The Mainland is the world leader in mobile payment services, and we are deepening our relationships with China's online service providers in order to strengthen our position in this area, and expand the reach of our services.

BEA is an ideal partner for Mainland online service providers. We have a national banking presence, but do not have an extensive branch network to protect. We have strong experience in mobile and Internet services, having long been a market leader in Hong Kong. And we have broad international experience, and good working relations with regulators.

We aim to leverage these unique advantages, expand our partnerships and further develop our presence in online services, including in particular mobile services, both in Hong Kong and on the Mainland.

We also previously emphasised our focused business strategies. We continue to actively pursue cross-border opportunities; increase our private-banking assets under management; and reduce our cost of funding through optimising our deposit structure and increasing our treasury activities.

Lastly, we have continued to review our business portfolio. As previously announced, since February 2016, BEA and our partner NWS Holdings Limited have been carrying out a review of our strategic investment in Tricor Holdings Limited. This review may lead to the sale of the entire interest in Tricor held by us.

This review was initiated following an assessment that Tricor would be able to develop more effectively if it were not a subsidiary of a regulated bank.

In light of the review and in accordance with accounting standards, BEA is required to report Tricor's operating results for the first half of 2016 separately as discontinued operations in the consolidated income statement.

At this stage, there can be no certainty about the outcome of the review process. It may or may not result in a sale.

Allow me to address the recent legal action brought by Elliott.

On 18th July 2016, Elliott presented a petition seeking relief from the Hong Kong court against the Bank and relevant directors.

BEA and the directors will vigorously oppose the petition and regard Elliott's allegations as baseless.

The petition makes Elliott's intentions clear. This is yet another attempt to put the Bank into play and force a sale. We have heard Elliott's arguments before. Their tactics only seek to serve their own short-term self-interest.

We strongly believe that these moves are not in the interest of the Bank and its other shareholders. The best way to build shareholder value is to focus on executing our business plan and on leveraging the valuable franchise that we have built.

I assure you that the petition will not have any material adverse impact on the normal business and operations of the Bank.

The Bank's directors are highly experienced individuals of the highest integrity. They take their responsibilities very seriously and always act in the best interest of the shareholders.

This Bank has built a unique franchise, spanning Hong Kong and the Mainland, and extending to major centres overseas.

We know Hong Kong; we know China. We are part of this dynamic region.

For almost a century, we have worked with companies large and small, supporting them as they brought new ideas and new projects to market. We anticipate trends, and are quick to serve evolving needs.

We have forged close partnerships with major banking allies, and work closely with them to serve customers all over the world.

We have a clear business strategy, and we are ready for all opportunities that lie ahead.

Financial Performance

Since February 2016, BEA, together with NWS Holdings Limited, has been carrying out a review of its strategic investment in Tricor Holdings Limited and its subsidiaries (collectively, the “Tricor Group”). The review considers strategic options including a possible sale of the entire interest in Tricor Group held by both BEA and NWS Holdings. Subsequently, a plan to sell the entire interest in Tricor Group has been initiated. Notwithstanding that a sale process is at an early stage and that the Bank has not entered into any agreement to sell its interest in Tricor Group, in accordance with Hong Kong Financial Reporting Standard 5 “Non-current Assets Held for Sale and Discontinued Operations”, the Group is required to report Tricor Group’s operating results for the first half of 2016 separately as discontinued operations in the consolidated income statement with comparative information re-presented. Tricor Group’s assets and liabilities as at 30th June, 2016 are presented separately as assets held for sale and liabilities held for sale respectively in the consolidated financial statements. Restatement of assets and liabilities as at 31st December, 2015 is not required. Nevertheless, there can be no certainty about the outcome of the sale process referred to: it may or may not result in a sale being concluded.

For the first six months of 2016, the Group achieved a profit attributable to owners of the parent of HK$2,095 million, representing a decrease of HK$1,259 million or 37.5%, compared with the HK$3,354 million earned in the same period in 2015. Profit attributable to owners of the parent from continuing operations and discontinued operations respectively amounted to HK$1,981 million and HK$114 million, representing a decrease of HK$1,261 million, or 38.9%, and an increase of HK$2 million, or 0.8%, respectively as compared to the first half of 2015. Basic earnings per share from continuing operations fell from HK$1.24 in 2015 to HK$0.65 in 2016 while basic earnings per share from discontinued operations remained at HK$0.04.

Annualised return on average assets and annualised return on average equity fell from 0.8% to 0.5%, and from 8.7% to 4.8%, respectively.

During the first six months of 2016, the Group’s net interest income from continuing operations decreased by HK$700 million, or 11.3%, to HK$5,483 million. Net interest margin narrowed from 1.71% to 1.59%, largely due to pressure on BEA China’s net interest margin, which decreased from 1.95% to 1.61%.

Net fee and commission income from continuing operations decreased by HK$336 million, or 21.2%, to HK$1,253 million. Commission income from credit cards grew, whereas securities and brokerage, trade finance, loans and guarantee, and retail banking services declined.

Net trading losses from continuing operations decreased by HK$2 million, or 7.6%, to HK$32 million. Overall, non-interest income from continuing operations decreased by 14.1% to HK$1,647 million. Operating income from continuing operations decreased by 12.0% to HK$7,130 million.

Total operating expenses from continuing operations rose by 0.5% to HK$4,239 million.

The cost-to-income ratio rose from 52.0% in the first half of 2015 to 59.4% in the first half of 2016.

Operating profit before impairment losses from continuing operations was HK$2,891 million, a decrease of HK$994 million, or 25.6%, when compared with the corresponding period in 2015.

With the worsening economic environment in Mainland China, impairment losses on loans and advances from continuing operations grew by 59.9% to HK$1,241 million. As a result, the impaired loan ratio of the Group rose from 1.13% at the end of 2015 to 1.23% at the end of June 2016. BEA China's impaired loan ratio increased from 2.63% to 2.80% while BEA Hong Kong's impaired loan ratio rose from 0.34% to 0.49%.

Operating profit after impairment losses from continuing operations was HK$1,650 million, a decrease of 46.9% or HK$1,458 million.

Net profit on disposal of fixed assets from continuing operations included a net gain of HK$782 million on certain properties in Mainland China. Associated land value-added tax and corporate income tax on the disposal, amounting to HK$396 million, is included in Income Tax.

Valuation gains on investment properties from continuing operations decreased to HK$45 million.

The Group shared after-tax profits from associates of HK$192 million from continuing operations, a decrease of HK$61 million, or 23.7% compared to the same period in 2015, mainly due to the weaker performance of a Malaysia-based associate and a Mainland China-based associate during the period under review.

After accounting for income taxes, profit after taxation from continuing operations fell to HK$1,989 million, a decrease of 39.0% compared to HK$3,260 million recorded in 2015.

Financial Position

Total consolidated assets of the Group stood at HK$756,571 million at the end of June 2016, a decrease of 3.2% over the HK$781,364 million reported at the end of 2015.

Gross advances to customers rose by 1.7% to HK$448,816 million and trade bills declined by 25.2% to HK$14,616 million.

Available-for-sale financial assets increased by 18.5% to HK$110,947 million, whereas trading assets increased by 22.9% to HK$6,560 million.

Total deposits from customers fell by 2.3% to HK$528,149 million. Demand deposits and current account balances decreased by HK$5,631 million, or 7.7%, compared with the balance at year-end 2015. Savings deposits increased to HK$117,904 million, a rise of 4.0%, while time deposits decreased by HK$11,535 million, a decrease of 3.3%, when compared with the end of December 2015. Total deposit funds, comprising deposits from customers and all certificates of deposit issued, fell by 3.1% to HK$559,899 million.

The loan-to-deposit ratio stood at 80.2% at the end of June 2016, 3.8 percentage points higher than the 76.4% reported at the end of 2015.

Total equity increased to HK$87,035 million, up 1.6%.

The Group maintained healthy capital adequacy and liquidity positions at the end of June 2016. The total capital ratio, tier 1 ratio, and common equity tier 1 ratio were 17.4%, 14.0%, and 12.6% respectively, as at 30th June, 2016. The average liquidity coverage ratio for the quarter ended 30th June, 2016 was 141.2%, which was well above the statutory limit of 70% for the year 2016.

About The Bank of East Asia, Limited

Incorporated in 1918, BEA is Hong Kong's largest independent local bank, with total consolidated assets of HK$756.6 billion (US$97.5 billion) as of 30th June, 2016. Listed on The Stock Exchange of Hong Kong, the Bank is a constituent stock of the Hang Seng Index.

BEA offers customers a comprehensive range of corporate banking, personal banking, wealth management, and investment services through an extensive network of more than 230 outlets covering Hong Kong and the rest of Greater China, Southeast Asia, the United Kingdom, and United States. For more information, please visit any BEA branch or the Bank's homepage at www.hkbea.com.

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BEA – Operator of one of the largest banking networks in Hong Kong