

## IMPORTANT NOTICE

### NOT FOR DISTRIBUTION WITHIN THE UNITED STATES OR TO ANY U.S. PERSONS

**IMPORTANT:** You must read the following before continuing. The following applies to the first supplementary offering circular following this page and the original offering circular dated 16 June 2014 (together, the “**Offering Circular**”), and you are therefore advised to read this carefully before reading, accessing or making any other use of the attached Offering Circular. In accessing the attached Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (“**REGULATION S**”)) EXCEPT IN ACCORDANCE WITH REGULATION S UNDER OR PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE FOLLOWING OFFERING CIRCULAR MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTION, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

**Confirmation and your Representation:** In order to be eligible to view the attached Offering Circular or make an investment decision with respect to the securities, investors must not be a U.S. person (within the meaning of Regulation S) and must be purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S. By accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to have represented to Citigroup Global Markets Limited and The Hongkong and Shanghai Banking Corporation Limited (together, the “**Joint Lead Managers and Joint Bookrunners**”), Goldman Sachs (Asia) L.L.C., Oversea-Chinese Banking Corporation Limited and SMBC Nikko Capital Markets Limited (together, with the Joint Lead Managers and Joint Bookrunners, the “**Joint Lead Managers**”), Crédit Agricole Corporate and Investment Banking, Nomura International plc and Standard Chartered Bank (the “**Co-Managers**” and together with the Joint Lead Managers, the “**Managers**”), and us (1) that you are not a U.S. person nor are you acting on behalf of a U.S. person, (2) that you and any customers you represent are and that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (3) that you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that the attached Offering Circular has been delivered to you on the basis that you are a person into whose possession the attached Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the attached Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected.

The securities described herein are complex financial instruments and are not a suitable or appropriate investment for all investors and should not be promoted, offered, distributed and/or sold to retail investors. By your acceptance of the e-mail attaching the attached document and accessing the attached document you shall represent, warrant, agree with and undertake to The Bank of East Asia, Limited 東亞銀行有限公司 and each of the Managers that you have complied and will at all times comply with all applicable laws, regulations and regulatory guidance relating to the promotion, offering, distribution and/or sale of the securities described herein and any other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the securities described herein by investors in any relevant jurisdiction. If you are acting as agent on behalf of a disclosed or undisclosed client the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both you and your underlying client.

The attached Offering Circular does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers or any affiliate of the Managers are a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of The Bank of East Asia, Limited 東亞銀行有限公司 in such jurisdiction.

The attached Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of The Bank of East Asia, Limited 東亞銀行有限公司, the Managers, the Trustee (as defined in the attached Offering Circular) or any of the Agents (each as defined in the attached Offering Circular) nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the attached Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



# The Bank of East Asia, Limited 東亞銀行有限公司

(incorporated with limited liability in Hong Kong)

## ***U.S.\$500,000,000 5.625 per cent. Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities issued pursuant to the U.S.\$6,000,000,000 Medium Term Note Programme***

This First Supplementary Offering Circular (the “**First Supplementary Offering Circular**”, which definition shall also include all information incorporated by reference herein) is issued solely in respect of the issue of U.S.\$500,000,000 5.625 per cent. Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the “**Capital Securities**”) by The Bank of East Asia, Limited 東亞銀行有限公司 (“**BEA**” or the “**Issuer**”).

This First Supplementary Offering Circular is supplemental to, and should be read in conjunction with, the Offering Circular dated 16 June 2014 (the “**Original Offering Circular**”) and, together with this First Supplementary Offering Circular, the “**Offering Circular**”) and all other documents that are deemed to be incorporated by reference therein in relation to the U.S.\$6,000,000,000 Medium Term Note Programme (the “**Programme**”) of the Issuer. Save to the extent defined in this First Supplementary Offering Circular, terms defined or otherwise attributed meanings in the Original Offering Circular have the same meaning when used in this First Supplementary Offering Circular. References in the Original Offering Circular and this First Supplementary Offering Circular to the “**Offering Circular**” or “**this Offering Circular**” mean the Original Offering Circular as supplemented and amended by this First Supplementary Offering Circular. To the extent that the Original Offering Circular is inconsistent with this First Supplementary Offering Circular, the terms of this First Supplementary Offering Circular shall prevail.

THE CAPITAL SECURITIES ARE OFFERED TO PROFESSIONAL INVESTORS ONLY AND ARE NOT SUITABLE FOR RETAIL INVESTORS. INVESTORS SHOULD NOT PURCHASE THE CAPITAL SECURITIES IN THE PRIMARY OR SECONDARY MARKETS UNLESS THEY ARE PROFESSIONAL INVESTORS. THE CAPITAL SECURITIES ARE COMPLEX FINANCIAL INSTRUMENTS AND ARE NOT A SUITABLE OR APPROPRIATE INVESTMENT FOR ALL INVESTORS. IN PARTICULAR, HOLDERS OF THE CAPITAL SECURITIES MAY BE REQUIRED TO ABSORB LOSSES UNDER CERTAIN CIRCUMSTANCES. INVESTING IN THE CAPITAL SECURITIES INVOLVES RISKS. SEE “**INVESTMENT CONSIDERATIONS**” IN THE ORIGINAL OFFERING CIRCULAR, AS SUPPLEMENTED AND AMENDED BY THIS FIRST SUPPLEMENTARY OFFERING CIRCULAR.

As described in this First Supplementary Offering Circular, subject to the Conditions (as defined in the “*Terms and Conditions of the Capital Securities*”), the Capital Securities confer a right to receive Distributions (as defined in the Conditions) on the principal amount (subject to adjustments following the occurrence of a Non-Viability Event (as defined in the Conditions) in accordance with the Conditions) from, and including, the Issue Date at the applicable Distribution Rate (as defined in the Conditions), payable semi-annually in arrear on 18 May and 18 November in each year. Distributions will not be cumulative and Distributions which are not paid in accordance with the Conditions will not accumulate or compound and Securityholders (as defined in the Conditions) will have no right to receive such Distributions at any time, even if subsequent Distributions are paid in the future, or be entitled to any claim in respect thereof against the Issuer.

The Issuer will not be obliged to pay, and will not pay, any Distribution on the applicable Distribution Payment Date (as defined in the Conditions), in whole or in part, as applicable, if such non-payment is in accordance with the Conditions and any failure to pay such Distribution shall not constitute an Event of Default (as defined in the Conditions). Distributions are non-cumulative and any Distribution which is cancelled shall therefore not be payable at any time thereafter whether in a Winding-Up (as defined in the Conditions) or otherwise.

The Capital Securities are perpetual and have no maturity date. Securityholders have no right to require the Issuer to redeem their Capital Securities whereas the Issuer can redeem the Capital Securities in certain circumstances as described in the Conditions. However, the Issuer is under no obligation to redeem the Capital Securities at any time. The ability of the Issuer to redeem the Capital Securities is subject to the Issuer (a) obtaining the prior written consent of the Monetary Authority (as defined in the Conditions) (if then required) in respect of the redemption, and (b) satisfying any conditions that the Monetary Authority may impose at that time.

If a Non-Viability Event occurs and is continuing, the Issuer shall, upon the provision of a Non-Viability Event Notice (as defined in the Conditions), irrevocably (without the need for the consent of the Securityholders) reduce the then principal amount of, and cancel any accrued but unpaid Distribution in respect of, each Capital Security (in each case in whole or in part) by an amount equal to the Non-Viability Event Write-off Amount (as defined in the Conditions) per Capital Security. Once any principal amount of, and any accrued but unpaid distribution under, the Capital Securities has been Written-off (as defined in the Conditions), the relevant amount(s) Written-off will not be restored in any circumstances including where the relevant Non-Viability Event ceases to continue. No Securityholder may exercise, claim or plead any right to any amount that has been Written-off, and each Securityholder shall, by virtue of his holding of any Capital Securities, be deemed to have waived all such rights to such amount that has been Written-off. **Securityholders could risk losing up to the full principal amount of the Capital Securities, as well as the cancellation of any accrued (and unpaid) Distributions, without receiving any compensation for such loss or cancellation.**

An application will be made to The Stock Exchange of Hong Kong Limited (“**SEHK**”) for the listing of, and permission to deal in, the Capital Securities by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “**SFO**”)) (together, “**Professional Investors**”) only on the SEHK and such permission is expected to become effective on 19 May 2017. This document is for distribution to Professional Investors only. **Investors should not purchase the Capital Securities in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Capital Securities are only suitable for Professional Investors.**

**SEHK has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Capital Securities on SEHK is not to be taken as an indication of the commercial merits or credit quality of the Capital Securities, the Issuer or quality of disclosure in this document.** Hong Kong Exchanges and Clearing Limited and SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

The Capital Securities will be issued in registered form and will be represented by a registered global certificate (the “**Global Certificate**”), and deposited on the relevant issue date with a common depository for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream, Luxembourg**”).

The Capital Securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Subject to certain exceptions, the Capital Securities may not be offered, sold, or delivered within the United States, or to, or for the account or benefit of, U.S. persons (as defined in Regulation S). The Capital Securities are subject to certain restrictions on transfer, see “*Subscription and Sale*” in the Original Offering Circular.

Moody’s Investors Service, Inc. (“**Moody’s**”) is expected to rate the Capital Securities “Ba2”. Standard & Poor’s Rating Services (“**S&P**”), a division of the McGraw-Hill companies, is expected to rate the Capital Securities “BB”. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

### *Joint Lead Managers and Joint Bookrunners*

**Citigroup**

**HSBC**

### *Joint Lead Managers*

**Goldman Sachs (Asia) L.L.C.**

**OCBC Bank**

**SMBC Nikko**

### *Co-Managers*

**Crédit Agricole CIB**

**Nomura**

**Standard Chartered Bank**

The date of this First Supplementary Offering Circular is 11 May 2017

## IMPORTANT NOTICE

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) for the purposes of giving information with regards to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading. Investors are advised to exercise caution in relation to the offering of the Capital Securities described herein. If investors are in any doubt about any of the contents of the Offering Circular, they should obtain independent professional advice.

*The Issuer, having made all reasonable enquiries, confirms that this First Supplementary Offering Circular contains or incorporates all information which is material in the context of the issuance and offering of Capital Securities, that the information contained or incorporated by reference in this First Supplementary Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this First Supplementary Offering Circular are honestly held and that there are no other facts the omission of which would make this First Supplementary Offering Circular or any of such information or the expression of any such opinions or intentions misleading in any material respect and which, in each case, is material in the context of the issuance and offering of the Capital Securities. The Issuer accepts responsibility accordingly.*

*This First Supplementary Offering Circular is to be read in conjunction with the Original Offering Circular and all documents which are incorporated herein by reference (including but not limited to the documents referred in “Incorporation by Reference” below).*

No person has been authorised to give any information or to make any representation other than those contained in the Offering Circular in connection with the issue or sale of the Capital Securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of Citigroup Global Markets Limited and The Hongkong and Shanghai Banking Corporation Limited (together, the “**Joint Lead Managers and Joint Bookrunners**”), Goldman Sachs (Asia) L.L.C., Oversea-Chinese Banking Corporation Limited and SMBC Nikko Capital Markets Limited (together, with the Joint Lead Managers and Joint Bookrunners, the “**Joint Lead Managers**”), Crédit Agricole Corporate and Investment Banking, Nomura International plc and Standard Chartered Bank (the “**Co-Managers**” and together with the Joint Lead Managers, the “**Managers**”), DB Trustees (Hong Kong) Limited as trustee for the holders of the Capital Securities (the “**Trustee**”) or the Agents (each as defined in “*Terms and Conditions of the Capital Securities*” in the Original Offering Circular). Neither the delivery of this First Supplementary Offering Circular and the Original Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Issuer and its subsidiaries (the “**Group**”) since the date hereof or the date upon which the Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which the Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

This First Supplementary Offering Circular has been prepared by the Issuer solely for use in connection with the proposed offering of the Capital Securities described in this First Supplementary Offering Circular. The distribution of this First Supplementary Offering Circular and the offering or sale of the Capital Securities in certain jurisdictions may be restricted by law. Persons into whose possession this First Supplementary Offering Circular comes are required by the Issuer and the Managers to inform themselves about and to observe any such restriction.

The Capital Securities have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Capital Securities may not be offered, sold or delivered within the United States, or to, or for the account or benefit of, U.S. persons (as defined in Regulation S). For a description of certain restrictions on offers and sales of Capital Securities and on distribution of the Offering Circular, see “*Subscription and Sale*” in the Original Offering Circular.

The Capital Securities are being offered and sold outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of Capital Securities and distribution of the Offering Circular, see “*Subscription and Sale*” in the Original Offering Circular.

THE CAPITAL SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF CAPITAL SECURITIES OR THE ACCURACY OR THE ADEQUACY OF THE OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

The Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Managers, the Trustee or the Agents or any of their respective directors, employees, representatives, affiliates or advisers to subscribe for, or purchase, any Capital Securities.

To the fullest extent permitted by law, none of the Managers, the Trustee or the Agents or any of their respective directors, employees, representatives, affiliates or advisers accept any responsibility for the contents of the Offering Circular or for any other statement, made or purported to be made by a Manager or the Trustee or any Agent or on its behalf in connection with the Issuer, the Group, the Programme or the issue and offering of the Capital Securities. Each Manager, the Trustee and each Agent and their respective directors, employees, representatives, affiliates and advisers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of the Offering Circular or any such statement. Neither the Offering Circular nor any financial statements of the Issuer or the Group are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Managers, the Trustee or the Agents or any of their respective directors, employees, representatives, affiliates or advisers that any recipient of the Offering Circular or any financial statements of the Issuer or the Group should purchase the Capital Securities. Each potential investor of Capital Securities should determine for itself the relevance of the information contained in the Offering Circular and its purchase of Capital Securities should be based upon such investigation as it deems necessary. None of the Managers, the Trustee or the Agents or any of their respective directors, employees, representatives, affiliates or advisers undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by the Offering Circular nor to advise any investor or potential investor in the Capital Securities of any information coming to the attention of any of the Managers, the Trustee or the Agents.

From time to time, in the ordinary course of business, certain of the Managers and their affiliates have provided advisory and investment banking services, and entered into other commercial transactions with the Issuer and its affiliates, including commercial banking services, for which customary compensation has been received. It is expected that the Managers and their affiliates will continue to provide such services to, and enter into such transactions, with the Issuer and its affiliates in the future.

The Managers or certain of their respective affiliates may purchase the Capital Securities and be allocated Capital Securities for asset management and/or proprietary purposes and not with a view to distribution.

In making an investment decision, each potential investor must rely on its own examination of the Issuer and the Group and the terms of the Capital Securities being offered, including the merits and risks involved. The Issuer does not and the Managers, the Trustee and the Agents and their respective directors, employees, representatives, affiliates and advisers do not make any representation regarding the legality of investment under any applicable laws.

Potential investors should be able to bear the economic risk of an investment in the Capital Securities for an indefinite period of time.

For convenience only, all Hong Kong dollar amounts in this First Supplementary Offering Circular have been translated into US dollar amounts at the rate of U.S.\$1.00 = HK\$7.80. Such translations should not be construed as representations that the Hong Kong dollar amounts referred to could have been, or could be, converted into US dollars at that or any other rate or at all.

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## WARNING

*The contents of this First Supplementary Offering Circular have not been reviewed by any regulatory authority of any jurisdiction. You are advised to exercise caution in relation to the offering of the Capital Securities. If you are in any doubt about any of the contents of this First Supplementary Offering Circular, you should obtain independent professional advice.*

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## STABILISATION

**IN CONNECTION WITH THE ISSUE OF THE BONDS, CITIGROUP GLOBAL MARKETS LIMITED (THE “STABILISING MANAGER”) OR ANY PERSON ACTING FOR THE STABILISING MANAGER MAY OVER-ALLOT THE CAPITAL SECURITIES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE CAPITAL SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE CLOSING DATE. HOWEVER, THERE IS NO OBLIGATION ON THE STABILISING MANAGER TO DO THIS. SUCH STABILISING IF COMMENCED MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. SUCH STABILISING SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.**

## DOCUMENTS INCORPORATED BY REFERENCE

Pursuant to this First Supplementary Offering Circular, the (a) consolidated annual financial statements (including the notes thereto) and the independent auditor's report in respect thereto, of the Group for the year ended 31 December 2015 (the "**2015 Financial Statements**") appearing on pages 140 to 287 of the 2015 annual report published by BEA on 15 March 2016 (the "**2015 Annual Report**") and (b) consolidated annual financial statements (including the notes thereto) and the independent auditor's report in respect thereto, of the Group for the year ended 31 December 2016 (the "**2016 Financial Statements**") appearing on pages 146 to 305 of the 2016 annual report published by BEA on 28 March 2017 (the "**2016 Annual Report**"), shall be deemed to be incorporated in, and form part of, the Offering Circular. Copies of the 2015 Annual Report and the 2016 Annual Report may be obtained from BEA's website at <http://www.hkbea.com> and the website of the SEHK at <http://www.hkex.com.hk>.

The above websites and any other websites referenced in the Offering Circular are intended as guides as to where other public information relating to BEA may be obtained. Information appearing on such websites (save for the information expressly incorporated by reference in the Offering Circular) does not form part of the Offering Circular and neither BEA nor the Managers accept any responsibility whatsoever that any information on such websites, if available, is accurate and/or up-to-date. Such information, if available, should not form the basis of any investment decision by an investor or potential investor to purchase or deal in the Capital Securities.

Any documents themselves incorporated by reference in the 2015 Financial Statements and the 2016 Financial Statements shall not form a part of the Offering Circular. The documents incorporated by reference herein are current only as at the date of such document and the incorporation by reference of such documents shall not create any implication that there has been no change in the affairs of the Group since the date thereof or that the information contained therein is current as at any time subsequent to its date.

Save for the 2015 Financial Statements and the 2016 Financial Statements, the financial information contained in this First Supplementary Offering Circular does not constitute BEA's specified financial statements (as defined in the Companies Ordinance (Cap. 622) of Hong Kong) for the financial years ended 31 December 2015 and 2016 but, in respect of financial information relating to a full financial year, is derived from those specified financial statements. BEA has delivered the specified financial statements for the financial years ended 31 December 2015 and 2016 to the Registrar of Companies of Hong Kong. BEA's auditor has issued unqualified reports on the specified financial statements for both years.

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## SUMMARY OF THE OFFERING

*The following summary does not purport to be complete and should be read in conjunction with Conditions. It does not contain all the information that is important to investors. For a more complete description of the Capital Securities, please refer to “Terms and Conditions of the Capital Securities”. Terms used in this summary and not otherwise defined shall have the meanings given to them in the “Terms and Conditions of the Capital Securities”.*

Issuer . . . . .	The Bank of East Asia, Limited 東亞銀行有限公司
Description . . . . .	U.S.\$500,000,000 5.625 per cent. Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities.
Joint Lead Managers and Joint Bookrunners . . . . .	Citigroup Global Markets Limited The Hongkong and Shanghai Banking Corporation Limited
Joint Lead Managers . . . . .	Goldman Sachs (Asia) L.L.C. Oversea-Chinese Banking Corporation Limited SMBC Nikko Capital Markets Limited
Co-Managers . . . . .	Crédit Agricole Corporate and Investment Banking Nomura International plc Standard Chartered Bank
Issue Date . . . . .	18 May 2017.
Status of the Capital Securities . . . . .	The Capital Securities constitute direct, unsecured and subordinated obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference among themselves. The rights and claims of the Securityholders are subordinated in the manner described below.

Subject to the insolvency laws of Hong Kong and other applicable laws, in the event of a Winding-Up of the Issuer (other than pursuant to a Permitted Reorganisation), the rights of the Securityholders to payment of principal and Distributions on the Capital Securities, and any other obligations in respect of the Capital Securities, shall rank (i) subordinate and junior in right of payment to, and of all claims of, (a) all unsubordinated creditors of the Issuer (including its depositors), (b) creditors in respect of Tier 2 Capital Securities of the Issuer, and (c) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Capital Securities or rank senior to the Capital Securities by operation of law or contract; (ii) *pari passu* in right of payment to and of all claims of the holders of Parity Obligations; and (iii) senior in right of payment to and of all claims of the holders of Junior Obligations, in each case in the manner provided in the Trust Deed.



**“Parity Obligation”** means any instrument or other obligation issued or entered into by the Issuer that constitutes or qualifies as Additional Tier 1 Capital (or its equivalent) under applicable Capital Regulations or any instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank *pari passu* with the Capital Securities by operation of law or contract (including, without limitation, the 318,345 Units comprising Step-Up Subordinated Notes due 2059 issued by the Issuer and Non-cumulative Step-Up Preference Shares issued by Innovate Holdings Limited and the U.S.\$650,000,000 5.50 per cent. undated non-cumulative subordinated additional Tier 1 capital securities issued by the Issuer which for the avoidance of doubt, excludes any Junior Obligations of the Issuer.

**“Junior Obligation”** means the Shares, and any other class of the Issuer’s share capital and any instrument or other obligation (including without limitation any preference shares) issued or guaranteed by the Issuer that ranks or is expressed to rank junior to the Capital Securities by operation of law or contract.

**“Tier 2 Capital Securities”** means instruments categorised as Tier 2 capital pursuant to the Capital Regulations that rank or are expressed to rank senior to the Capital Securities by operation of law or contract (including, without limitation, the U.S.\$600,000,000 Subordinated Notes due 2020 issued by the Issuer, the U.S.\$500,000,000 Subordinated Notes due 2022 issued by the Issuer, the S\$800,000,000 Subordinated Notes due 2022 issued by the Issuer, the U.S.\$500,000,000 Tier 2 Capital Dated Subordinated Notes due 2024 issued by the Issuer and the U.S.\$500,000,000 Tier 2 Capital Dated Subordinated Notes due 2026 issued by the Issuer).

No Set-off . . . . .	Subject to applicable law, no Securityholder may exercise, claim or plead any right of set-off, counter-claim or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Capital Securities and each Securityholder shall, by virtue of being the Securityholder of any Capital Security be deemed to have waived all such rights of such set-off, counter-claim or retention.
Form and Denomination . . . . .	The Capital Securities will be issued in registered form in the denomination of U.S.\$200,000 each and integral multiples of U.S.\$1,000 in excess thereof.
Distributions . . . . .	Subject to Condition 4(B), the Capital Securities confer a right to receive Distributions on their principal amount (subject to adjustments following the occurrence of a Non-Viability Event in accordance with Condition 4(C)) from, and including, the Issue Date at the applicable Distribution Rate, payable semi-annually in arrear on 18 May and 18 November in each year.

Non-cumulative Distributions . . . . .	Distributions will not be cumulative and Distributions which are not paid in accordance with the Conditions will not accumulate or compound and Securityholders will have no right to receive such Distributions at any time, even if subsequent Distributions are paid in the future, or be entitled to any claim in respect thereof against the Issuer.
Distribution Rate . . . . .	<p>The Distribution Rate applicable to the Capital Securities shall be:</p> <p>(i) in respect of the period from, and including, the Issue Date to, but excluding, 18 May 2022 (the “<b>First Call Date</b>”), 5.625 per cent. per annum; and</p> <p>(ii) in respect of a Reset Distribution Period, the relevant Reset Distribution Rate.</p>
Optional Distribution Cancellation Event . . . . .	Unless a Distribution has already been cancelled in full pursuant to a Mandatory Distribution Cancellation Event, prior to any Distribution Payment Date the Issuer may, at its sole discretion, elect to cancel any payment of a Distribution, in whole or in part, by giving a notice to the Trustee signed by two Directors of the Issuer, as further described in “ <i>Terms and Conditions of the Capital Securities — Distributions — Distribution Restrictions — Optional Distribution Cancellation Event</i> ”.
Mandatory Distribution Cancellation Event . . . . .	Notwithstanding that a Distribution Cancellation Notice may not have been given, the Issuer shall not be obliged to pay, and will not pay, any Distribution on the applicable Distribution Payment Date, in whole or in part, as applicable, upon a Mandatory Distribution Cancellation Event, as further described in “ <i>Terms and Conditions of Capital Securities — Distributions — Distribution Restrictions — Mandatory Distribution Cancellation Event</i> ”.
No Obligation to Pay . . . . .	The Issuer shall have no obligation to pay a Distribution on any Distribution Payment Date if such non-payment is in accordance with Condition 4(B) and any failure to pay such Distribution shall not constitute an Event of Default. Distributions are non-cumulative and any Distribution which is cancelled in accordance with the Conditions shall not be payable at any time thereafter whether in a Winding-Up or otherwise.

No Claim by Securityholders for Distributions . . . . .	No Securityholder shall have any claim in respect of any Distribution or part thereof cancelled and/or not due or payable as described under “ <i>Terms and Conditions of the Capital Securities — Distributions — Distribution Restrictions — Optional Distribution Cancellation Event</i> ”, “ <i>Terms and Conditions of the Capital Securities — Distributions — Distribution Restrictions — Mandatory Distribution Cancellation Event</i> ” and “ <i>Terms and Conditions of the Capital Securities — Distributions — Distribution Payments — Non-Cumulative Distribution</i> ”. Accordingly, such Distribution shall not accumulate for the benefit of Securityholders or entitle the Securityholders to any claim in respect thereof against the Issuer.
Distributable Reserves . . . . .	Any Distribution may only be paid out of Distributable Reserves.
Dividend Stopper . . . . .	<p>If, on any Distribution Payment Date, payment of Distribution scheduled to be paid is not made in full by reason of Condition 4(B), the Issuer shall not:</p> <ul style="list-style-type: none"> <li>(i) declare or pay in cash any distribution or dividend or make any other payment in cash on, and will procure that no distribution or dividend in cash or other payment in cash is made on, any Shares; or</li> <li>(ii) purchase, cancel or otherwise acquire any Shares or permit any of its Subsidiaries to do so,</li> </ul> <p>in each case, unless or until the earlier of: (x) the Distribution scheduled to be paid on any subsequent Distribution Payment Date has been paid in full to Securityholders or a designated third party trust account for the benefit of the Securityholders, or (y) the redemption or purchase and cancellation of the Capital Securities in full, or reduction of the principal amount of the Capital Securities to zero in accordance with the Conditions, or (z) the Issuer is permitted to do so by an Extraordinary Resolution (as defined in the Trust Deed) of the Securityholders.</p> <p>See “<i>Terms and Conditions of the Capital Securities — Distributions — Distribution Restrictions — Dividend Stopper</i>” for further information.</p>

Non-Viability Loss Absorption . . . . . If a Non-Viability Event occurs and is continuing, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably (without the need for the consent of the Securityholders of the Capital Securities) reduce the then principal amount of, and cancel any accrued but unpaid Distribution in respect of, each Capital Security (in each case in whole or in part) by an amount equal to the Non-Viability Event Write-off Amount per Capital Security (such reduction and cancellation or conversion, and the reduction and cancellation of any other Subordinated Capital Instruments so reduced and cancelled or converted upon the occurrence of a Non-Viability Event, where applicable, being referred to herein as the “**Write-off**”, and “**Written-off**” shall be construed accordingly).

“**Non-Viability Event**” means the earlier of:

- (a) the Monetary Authority notifying the Issuer in writing that the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; and
- (b) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

Consequence of Non-Viability Loss Absorption . . . . . Once the principal amount of, and any accrued but unpaid Distribution under, the Capital Securities has been Written-off, the relevant amount(s) Written-off will not be restored in any circumstances including where the relevant Non-Viability Event ceases to continue. No Securityholder may exercise, claim or plead any right to any amount that has been Written-off, and each Securityholder shall, by virtue of his holding of any Capital Securities, be deemed to have waived all such rights to such amount that has been Written-off.

Hong Kong Bail-in Power . . . . . Notwithstanding any other term of the Capital Securities including with limitation Condition 4(C) or any other agreement or arrangement, each Securityholder and the Trustee shall be subject, and shall be deemed to agree and acknowledge that they are each subject, to the exercise of any Hong Kong Bail-in Power by the relevant Hong Kong Resolution Authority without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:

- (a) the reduction or cancellation of all or a part of the principal amount of, or distributions on, the Capital Securities;

- (b) the conversion of all or a part of the principal amount of, or distributions on, the Capital Securities into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Capital Securities; and
- (c) the amendment or alteration of the maturity of the Capital Securities or amendment or alteration of the amount of distributions payable on the Capital Securities, or the date on which the distributions become payable, including by suspending payment for a temporary period, or any other amendment or alteration of the Conditions.

With respect to (a), (b) and (c) above, reference to principal and distributions shall include payments of principal and distributions that have become due and payable (including principal that has become due and payable at the maturity date), but which have not been paid, prior to the exercise of any Hong Kong Bail-in Power. The rights of the Securityholders and the Trustee under the Capital Securities and the Conditions are subject to, and will be amended and varied, if necessary, solely to give effect to, the exercise of any Hong Kong Bail-in Power by the relevant Hong Kong Resolution Authority.

No repayment of the principal amount of the Capital Securities or payment of Distributions on the Capital Securities shall become due and payable or be paid after the exercise of any Hong Kong Bail-in Power by the relevant Hong Kong Resolution Authority unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by the Issuer under the laws and regulations applicable to the Issuer and the Group.

Neither the reduction or cancellation, in part or in full, of the principal amount of, or Distributions on the Capital Securities, the conversion thereof into another security or obligation of the Issuer or another person, or any other amendment or alteration of the Conditions as a result of the exercise of any Hong Kong Bail-in Power by the relevant Hong Kong Resolution Authority with respect to the Issuer nor the exercise of the Hong Kong Bail-in Power by the relevant Hong Kong Resolution Authority with respect to the Capital Securities shall constitute an Event of Default under Condition 9(A).

See “*Terms and Conditions of the Capital Securities — Distributions — Hong Kong Bail-in Power*” for further information.

Maturity Date . . . . . The Capital Securities are perpetual securities in respect of which there is no fixed redemption date. The Capital Securities may not be redeemed at the option of the Issuer other than in accordance with Condition 6.

Redemption for Taxation  
Reasons . . . . . Subject to Condition 6(F), the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice if the Issuer satisfies the Trustee immediately before the giving of such notice that a Withholding Tax Event has occurred. Capital Securities so redeemed will be redeemed at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 4(C).

See "*Terms and Conditions of the Capital Securities — Redemption and Purchase — Redemption for Tax Reasons*" for further information.

Redemption for Tax Deduction  
Reasons . . . . . Subject to Condition 6(F), the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice if the Issuer satisfies the Trustee immediately before the giving of such notice that a Tax Deduction Event has occurred.

A "**Tax Deduction Event**" occurs if (a) the Issuer satisfies the Trustee immediately before the giving of the notice of redemption referred to in Condition 6(C) that in respect of the Distributions payable on the Capital Securities, the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of computing its taxation liabilities in Hong Kong or any political subdivision or any authority thereof or therein having power to tax as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 11 May 2017, and (b) such non tax deductibility cannot be avoided by the Issuer taking reasonable measures available to it, as further described in Condition 6(C).

Capital Securities so redeemed will be redeemed at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 4(C).

See "*Terms and Conditions of the Capital Securities — Redemption and Purchase — Redemption for Tax Deduction Reasons*" for further information.

Redemption for Regulatory  
Reasons . . . . .

Subject to Condition 6(F), the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving not less than 30 nor more than 60 days’ notice following the occurrence of a Capital Event.

A “**Capital Event**” occurs if the Issuer satisfies the Trustee immediately before the giving of the notice of redemption referred in Condition 6(D) that (a) the Capital Securities, after having qualified as such, will no longer qualify (in whole or in part) as Additional Tier 1 Capital (or equivalent) of the Issuer and/or (b) the Capital Securities cease to be included in the calculation of the Issuer’s capital adequacy ratio, as a result of changes or amendments in (or any change in the application or official interpretation of) the relevant provisions of the Banking Ordinance (Cap.155) of Hong Kong, Banking (Capital) Rules (Cap. 155L) of Hong Kong, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority.

Capital Securities so redeemed will be redeemed at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 4(C).

See “*Terms and Conditions of the Capital Securities — Redemption and Purchase — Redemption of the Capital Securities for Regulatory Reasons*” for further information.

Redemption at the Option of the  
Issuer . . . . .

The Issuer may redeem all, but not some only, of the Capital Securities then outstanding on the First Call Date or any Distribution Payment Date thereafter, at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, as further described in “*Terms and Conditions of the Capital Securities — Redemption and Purchase — Redemption at the Option of the Issuer*”.

Conditions for Redemption and  
Purchase in respect of the  
Capital Securities . . . . .

The Issuer shall not redeem any of the Capital Securities (other than pursuant to Condition 9) and neither the Issuer nor any of its Subsidiaries shall purchase any of the Capital Securities unless the prior written consent of the Monetary Authority thereto shall have been obtained, as further described in “*Terms and Conditions of the Capital Securities — Redemption and Purchase — Conditions for Redemption and Purchase in Respect of the Capital Securities*”.

Taxation . . . . .	All payments of principal and distributions by or on behalf of the Issuer in respect of the Capital Securities shall be made free and clear of, and without withholding or deduction for any withholding taxes imposed by Hong Kong, subject as provided in Condition 7. If the Issuer is required to make a deduction or withholding by or within Hong Kong, the Issuer shall, save in certain limited circumstances provided in Condition 7, be required to pay additional amounts to cover the amounts so deducted.
Governing Law . . . . .	The Trust Deed, the Capital Securities and any non-contractual obligations arising out of or in connection with the Trust Deed and the Capital Securities are governed by, and shall be construed in accordance with, English law, save that the subordination provisions set out in Condition 3(B) (and related provisions of the Trust Deed) shall be governed by, and construed in accordance with, the laws of Hong Kong.
Rating . . . . .	The Capital Securities are expected to be assigned a rating of “Ba2” by Moody’s and “BB” by S&P. The rating does not constitute a recommendation to buy, sell or hold the Capital Securities and may be subject to suspension, reduction or withdrawal at any time by Moody’s or S&P.
Clearing Systems . . . . .	Euroclear and Clearstream, Luxembourg.
Use of proceeds . . . . .	General corporate purposes.
Listing . . . . .	Application will be made to the SEHK for the listing of, and permission to deal in, the Capital Securities by way of debt issues to Professional Investors only on the SEHK.
Capital Treatment of the Capital Securities . . . . .	It is intended that the Capital Securities will qualify in full as Additional Tier 1 capital of the Issuer in accordance with the requirements of the Banking (Capital) Rules (Cap. 155L) of Hong Kong.



## INVESTMENT CONSIDERATIONS

*Prospective investors should carefully take into account the considerations described below, in addition to the other information contained herein, before investing in the Capital Securities. The occurrence of one or more events described below could have an adverse effect on the Group's business, financial condition, or results of operations, and could affect its ability to make payments of principal and interest under the Capital Securities. Additional considerations and uncertainties not currently known to BEA, or which BEA currently deems immaterial, may also have an adverse effect on an investment in the Capital Securities.*

*The following replaces the sub-section headed "Considerations relating to the Group" under the section headed "Investment Considerations" included on pages 20 to 33 of the Original Offering Circular in its entirety.*

### CONSIDERATIONS RELATING TO THE GROUP

#### Hong Kong Economy

The Group conducts most of its operations<sup>(1)</sup> and generates most of its revenue in Hong Kong. The Group's performance and the quality and growth of its assets are necessarily dependent on the overall economy in Hong Kong. As a result, any downturn in the Hong Kong economy may adversely affect the Group's business, financial condition and the results of its operations.

The Hong Kong economy is sensitive to global economic conditions, and it is impossible to predict how the Hong Kong economy will develop in the future and whether it may slow down due to a global crisis or experience a financial crisis. For example, the economy of Hong Kong has been adversely affected by the worsening of the global economy resulting from, among others, the subprime mortgage crisis in the United States, the global credit crunch in 2007 and the collapse of Lehman Brothers Inc. in September 2008, which adversely affected global financial markets and the liquidity in global credit markets. These developments resulted in an economic slowdown in the United States and most economies around the world, substantial volatility in equity securities markets globally, fluctuations in foreign currency exchange rates and volatility and tightening of liquidity in global credit markets. The Group expects the recovery of, and the continued growth in, the Hong Kong economy to depend in part upon the economic performance of the United States and the PRC, as well as certain other developed countries. In addition, economic downturns and sovereign debt concerns in the United States and certain European countries have led to renewed doubts regarding the sustainability of the global economic recovery. The U.S. government's policies may also create uncertainty for the global economy and financial markets. Also, the national referendum results whereby the United Kingdom voted to withdraw from the European Union has resulted in volatility in global financial markets, and it is expected to create mid- to long-term economic uncertainty to not only the economies of the United Kingdom and the European Union but also globally. In addition, the global equity markets, including the United States, Europe, the PRC and Hong Kong, and the exchange rate of Renminbi against the U.S. dollar have been volatile. If there is any renewed economic downturn or slowdown in global economic recovery or if the market volatilities persist, there can be no assurance that the Hong Kong economy or the Group's business, financial condition and results of operations will not be adversely affected.

Although Hong Kong's gross domestic product in real terms (after adjustment for inflation) rose by 2.7% in 2014, 2.4% in 2015 and 1.9% in 2016 (year-on-year), BEA expects the recovery of, and the continued growth in, the Hong Kong economy to depend in part upon the economic performance of the US and the PRC, as well as certain other developed countries. There can be no assurance that the economic slowdown in the PRC or future global events will not have an adverse effect on the Hong Kong economy and the Group.

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<sup>(1)</sup> Operations based on size of total assets.

## Competition

The Group is subject to significant competition from many other Hong Kong and foreign banks and financial institutions, including competitors which have significantly more financial and other capital resources, higher market share, and stronger brand recognition than the Group. Therefore, many of the international and local banks and niche players operating in Hong Kong compete for substantially the same customers as the Group. There is a limited market, especially for retail banking products such as investment and insurance products, home mortgage loans, credit cards, personal loans and transport lending businesses. The strength of competition in the past few years has had an adverse impact on the pricing of certain products.

In recent years, competition among banks in Hong Kong for investment and insurance products, home mortgage loans, credit cards, personal loans and transport lending business has become very aggressive. There can be no assurance that increased competition will not have a material adverse effect on the Group's business, financial condition or results of operations.

As a result of the intensified competition among banks, BEA has experienced downward pressure on its margins in recent years. To counter the effects of increased competition, BEA has actively pursued a strategy of diversifying its income sources by focusing on increasing its fee-based income, introducing innovative products and, at the same time, improving the cost efficiency of its operations. However, there can be no assurance that BEA will be able to compete successfully in the mature Hong Kong banking market and sustain its profitability in future.

The banking industry in Mainland China is highly competitive. The market has been dominated by the large state-owned commercial banks, which have long operating histories, well-established branch networks, large customer bases and better brand recognition. Besides, the joint-stock commercial banks and the city commercial banks have been aggressive in expanding their business for increasing their market share in recent years.

Moreover, the banking industry in Mainland China has been facing more challenges in recent years as the PRC government implemented a series of measures to liberalise the banking industry. BEA expects competition not only from state-owned commercial banks, joint-stock commercial banks and city commercial banks, but also from foreign commercial banks whose geographical presence, customer base and business scope have become less restrictive following the opening up of the banking sector in Mainland China. Besides, the China Banking Regulatory Commission ("CBRC") encourages and guides private capital to enter the banking industry. As at 31 March 2017, 17 privately-owned banks obtained approvals from CBRC for the establishment of business operations in Mainland China. These have intensified the competition of the banking sector in Mainland China. Furthermore, the rapid development of internet finance, financial disintermediation and shadow banking have brought new challenges to the banking sector in business areas of deposits, payment and settlement, lending as well as acquisition and retention of customers.

In addition, the PRC's Closer Economic Partnership Arrangement (the "CEPA") with Hong Kong and Macau allows smaller banks from these jurisdictions to operate in Mainland China, which has also increased competition in the banking industry in Mainland China. Many of these banks compete with the Group for the same customer base and some of them may have greater financial, management and technical resources than the Group.

The intensified competition in the markets where the Group operates may adversely affect the Group's business and prospects, the effectiveness of its strategies, its results of operations and financial condition by potentially:

- reducing the growth and quality of the Group's loan and deposit portfolios and other products and services;
- reducing the Group's interest income and net interest margin;
- reducing the Group's fee and commission income;
- increasing the Group's interest and operating expenses; and
- increasing competition for qualified managers and employees.

### **Expansion in Hong Kong and Mainland China Markets**

The Group's strategy involves expansion of its business in the Hong Kong and Mainland China markets organically and through mergers and acquisitions ("M&A") and alliances, if suitable opportunities arise. The Bank of East Asia (China) Limited ("BEA (China)") obtained the Financial Institution Business Permit from CBRC on 20 March 2007 and the business licence from the State Administration for Industry and Commerce ("SAIC") on 29 March 2007 as a locally-incorporated bank. BEA (China) officially commenced business on 2 April 2007. The establishment of a locally-incorporated bank is one of the prerequisites for providing RMB retail banking service in Mainland China.

Further expansion into Mainland China may present the Group with new risks and challenges, such as interest rate liberalisation, slowdown in credit growth, margin compression, asset quality deterioration, more stringent and changing regulatory requirements, and new competition from internet finance players and online money market funds. For discussion of recent or proposed acquisitions and disposals of the Group's businesses, see "*Business of the Group — Mainland China and Other Asian Countries*". Expansion and integration of new M&A and alliances in the Hong Kong and Mainland China markets may also require significant financial, operational, administrative and management resources. The success of any M&A and alliances will depend in part on the ability of BEA's management to integrate the operations of newly acquired businesses with its existing operations and, where applicable, to integrate various departments, systems and processes. Consequently, the Group's ability to implement its business strategy may be constrained and the timing of such implementation may be affected due to the demand placed on existing resources by the process. There can be no assurance that the acquired entities will achieve the level of performance that BEA anticipates or that the projected demand for and margins of the Group's products and services will be realised. The failure to manage expansion effectively could have an adverse effect on the Group's business, financial condition and results of operations. As at the date of this First Supplementary Offering Circular, the Group has not identified any specific targets for M&A.

### **Changes in Regulations in the Mainland China Market**

The regulations which apply to the Group's business in the PRC are extensive, complex and frequently changing. The PRC banking regulatory regime has been evolving continuously. Some of the changes in rules and regulations may result in additional costs or restrictions on BEA (China)'s operations and business expansion in China.

BEA (China)'s business and operations are directly affected by the changes in laws, rules, regulations or policies relating to the PRC banking industry. As some of the banking laws, rules, regulations or policies are relatively new, there is uncertainty regarding their interpretation and application. If BEA

(China) fails to comply with any of these laws, rules, regulations or policies, it may result in enforcement actions, which may include fines to be imposed on BEA (China), restrictions on its business activities, or in extreme cases, suspension or revocation of its business licences, which would materially and adversely affect BEA (China)'s operations, reputation, business and financial position.

BEA (China) operates in a highly regulated industry. The principal regulators of the PRC banking industry include CBRC, the People's Bank of China ("PBOC") and the State Administration of Foreign Exchange ("SAFE"). CBRC requires all commercial banks in China to maintain certain financial ratios, including but not limited to liquidity coverage ratio, liquidity ratio, net stable funding ratio and capital adequacy ratio ("CAR").

In accordance with the amended Commercial Banking Law of the PRC, the previous requirement that all commercial banks in China should maintain a loan-to-deposit ratio of not more than 75% has been removed and loan-to-deposit ratio has been changed from a supervisory indicator to a liquidity monitoring indicator. However, CBRC will use other indicators, such as liquidity coverage ratio, liquidity ratio, and net stable funding ratio to monitor the liquidity status of commercial banks. If BEA (China) fails to fulfill these mandatory requirements, it may result in restrictions on its business expansion imposed by CBRC, such as suspension of new business application and establishment of new branch or sub-branch.

In recent years, CBRC has issued new regulations and guidelines governing the capital management of all commercial banks in the PRC. According to the Administrative Measures for the Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) released in June 2012, the new capital requirements of CBRC should be fulfilled by all commercial banks in China on or before 31 December 2018. The minimum capital requirements of CAR, Tier 1 CAR and Core Tier 1 CAR for non-systemically important banks in China are 8%, 6% and 5% respectively. On top of the minimum capital requirements, all commercial banks should make an additional provision of 2.5% on their risk weighted assets.

### **Dependence on Key Personnel and Recruitment**

The Group's ability to sustain its growth and meet future business demands depends on its ability to attract, recruit and retain suitably skilled and qualified staff. Given the Group's rapid expansion in the Mainland China market, there can be no assurance that the Group will be able to recruit staff in sufficient numbers or with sufficient experience, or that pressure on recruitment will not lead to significant increases in the Group's employment costs. Competition for suitably skilled and qualified staff is particularly acute in Mainland China. Any of these factors could adversely affect the Group's business, financial condition and results of operations.

In addition, the Group also faces strong competition to retain skilled and qualified staff, and the loss of key personnel or any inability to manage attrition levels in different employee categories may have an adverse effect on the Group's business, its ability to grow, increased employment and training and development costs and its control over various business functions. There can be no assurance that there will be no departures of personnel from the senior management of BEA and that, if future departures do occur, the Group's business and operations will not be adversely affected.

### **Expanding Range of Products and Services Offered in Mainland China**

In order to meet the needs of its customers and to expand its business, the Group has broadened the range of products and services offered by BEA (China). Expansion of the business of the Group in Mainland China is subject to certain risks and challenges, including:

- the Group may not be able to obtain regulatory approval for new products or services;
- the Group's new products and services may not be accepted by customers or are not able to generate the Group's expected return;

- the Group may have difficulties in recruiting experienced professionals or qualified personnel to offer new products and services, due to keen competition in the labour market; and
- the Group may not be able to enhance its risk management capabilities and information technology systems to support a broader range of products and services.

If the Group is not able to achieve the intended results with respect to its new products and services to be offered in Mainland China, this could have an adverse effect on the business, financial condition and results of operations of the Group.

### **Exposure to Greater China Market (excluding Hong Kong)**

As at 4 May 2017, BEA's wholly-owned subsidiary, BEA (China), headquartered in Shanghai, operated 30 branches in Shanghai, Beijing, Tianjin, Harbin, Dalian, Shenyang, Qingdao, Shijiazhuang, Zhengzhou, Urumqi, Hangzhou, Nanjing, Suzhou, Chengdu, Chongqing, Wuhan, Hefei, Xi'an, Shenzhen, Guangzhou, Zhuhai, Xiamen, Changsha, Kunming, Ningbo, Jinan, Wuxi, Fuzhou, Nanning and Nanchang as well as 84 sub-branches (including 16 cross-location sub-branches in Guangdong province established under the liberalisation measures of Supplement VI to the CEPA). In addition to the BEA (China) network, BEA operated a rural bank in Fuping County, Weinan City in Shaanxi province as at 4 May 2017. As at 4 May 2017, BEA maintained two outlets in Taiwan (including a Taiwan Offshore Banking Branch in Taipei), and one branch and three sub-branches in Macau.

As at 31 December 2014, 2015 and 2016, advances to customers made by the Group's operations in Mainland China, Taiwan and Macau collectively amounted to HK\$163,915 million, HK\$162,115 million and HK\$154,468 million, respectively, representing approximately 37.0%, 36.7% and 34.0%, respectively, of the Group's total advances to customers. The value of the Group's advances in Mainland China, as well as its advances to companies that have business interests in Mainland China, may be influenced by the general state of the PRC economy and may be affected by significant political, social or legal uncertainties or changes in Mainland China (including changes in political leadership, inflation rate, exchange controls and exchange rate, and the impact on the changes in regulations governing banking and other businesses). As at 31 December 2014, 2015 and 2016, impaired loan ratio of the Group's advances in Mainland China was approximately 1.3%, 2.4% and 2.6%, respectively. The increase in the impaired loan ratio of the Group's advances in Mainland China from 31 December 2014 to 31 December 2016 was as a result of, among other factors, the economic slowdown in the PRC resulting in deterioration of the asset quality in Mainland China. While the Group has tightened its credit policies and put more focus on lending to state-owned enterprises and large-scale enterprises, there can be no assurance that the non-performing loan ratio of the Group's advances in Mainland China will not further increase in the future, nor can there be any assurance that the Group's continued exposure to Mainland China or its strategy to grow its business in Mainland China will not have a negative impact on the Group's earnings or an adverse effect on the Group's business, financial condition or results of operations or that the economic and political environment in Mainland China will remain favourable to the Group's business in Mainland China in the future.

### **Concentration Risk — Exposure to the Property Market**

The Group has significant direct and indirect exposure to the property market particularly in Hong Kong and Mainland China through its portfolio of property related advances and property used as collateral.

As at 31 December 2016, the Group's property related loans amounted to HK\$62,076 million, representing approximately 13.7% of the Group's total loan portfolio.

As at 31 December 2014, 2015 and 2016, home mortgage advances (including but not limited to advances under the Government Home Ownership Scheme ("GHOS"), Private Sector Participation Scheme ("PSPS") and Tenants Purchase Scheme ("TPS")) in Hong Kong represented one of the most significant segments of the Group's total advances to customers, which amounted to HK\$34,110 million, HK\$41,855 million and HK\$41,738 million, respectively, which accounted for approximately 7.7%, 9.5% and 9.2%, respectively, of the Group's total advances to customers. In particular, advances under GHOS, PSPS and TPS accounted for HK\$1,058 million, HK\$1,050 million and HK\$988 million, respectively, or approximately 0.2%, 0.2% and 0.2%, respectively, of the Group's total advances to customers. Advances for property development and investment in Hong Kong amounted to HK\$56,083 million, HK\$54,899 million and HK\$60,158 million, which accounted for approximately 12.7%, 12.4% and 13.2%, respectively, of the Group's total advances to customers.

The Hong Kong and the PRC property markets are highly cyclical and property prices in general have been volatile. For example, Hong Kong residential property prices, after reaching record highs in 1997, fell significantly as a result of the Asian economic downturn. In addition, while the Hong Kong property market showed improvement during the period from 2004 to the first half of 2008, property prices in Hong Kong declined in the second half of 2008 and early 2009, and have generally increased since the second half of 2009. Despite the introduction by the HKMA of prudential measures for mortgage lending and the implementation by the Hong Kong government of cooling measures from time to time as means to address the increasing risk of property price bubble, property prices in Hong Kong continued to follow an upward trend in recent years.

Property prices in Hong Kong are affected by a number of factors, including, among other things, the supply of, and demand for, comparable properties, the rate of economic growth in Hong Kong, political and economic developments in the PRC, and the relationship between the PRC, Hong Kong and other countries. In Hong Kong, the HKMA has implemented regulatory measures in recent years to mitigate risks in residential mortgage lending in the banking sector. This has included prudential measures implemented gradually between late 2009 and 2015 to lower loan-to-value ratio caps for mortgages on various ranges of high end properties. More prudential measures for mortgage loans were imposed in 2015, including lowering of the loan-to-value ratio cap to 60% for property values lower than HK\$10 million and requiring banks to apply a 5% knock down on the applicable debt servicing ratio caps if the total amount of mortgage loans, through any mortgage co-financing or insurance schemes, is 20% over the normal permissible loan-to-value caps set by the HKMA.

In the PRC, a build-up in inflationary pressure, resulting from changes in the external economic and political environment and a prolonged period of negative interest rates, fuelled a strong housing demand for wealth preservation during 2010. From time to time, the PRC government has launched various initiatives to rein in excessive appreciation in housing prices and as a result of these regulatory measures, the property market in the PRC has showed significant volatility in recent years.

Accordingly, any prolonged decrease or fluctuations in property values or liquidity of the Hong Kong and the PRC property markets could adversely affect the Group's business, financial condition and results of operations.

### **Liquidity and Funding Sources**

The Group endeavours to diversify its funding sources in order to maintain the stability of its liquidity. The majority of the Group's funding requirements are met in the form of customer deposits. As at 31 December 2014, 2015 and 2016, approximately 79.0%, 78.1% and 77.7%, respectively, of the Group's customer deposits had a remaining maturity of three months or less. Historically, a substantial portion of such customer deposits has been rolled over upon maturity and these deposits have been, in essence, a stable source of long-term funding. However, there can be no assurance that

this pattern will continue. If a substantial number of depositors do not roll over deposited funds upon maturity, the Group's liquidity position would be adversely affected and the Group may need to seek alternative sources of short-term or long-term funding to finance its operations, which may be more expensive than existing deposits.

Although the Group has issued debt securities to diversify its funding sources, customer deposits remain its primary funding source in Hong Kong. In Mainland China, the Group's strategy is to increase the growth of customer RMB deposits in order to maintain stability in its source of funds and to minimise costs associated with interbank borrowing. From 31 December 2014 to 31 December 2016, the Group's total deposit funds decreased from HK\$592,582 million to HK\$564,646 million, and the Group's customer deposits decreased from HK\$548,184 million to HK\$535,789 million. There are many factors affecting the growth of the Group's deposits, some of which are beyond the Group's control, such as economic and political conditions, the availability of alternative investment choices (including but not limited to securities issued by governmental or corporate entities, unit trusts and mutual funds, investment-linked assurance schemes and structured investment products), change of government monetary policy and retail customers' changing perceptions toward savings. There can be no assurance that the Group will be able to maintain or grow its customer deposits to support its business.

As part of its measures to maintain the liquidity of, and confidence in, the Hong Kong financial markets, the Hong Kong Deposit Protection Board enhanced the Deposit Protection Scheme with an increased protection limit of HK\$500,000 and expanded coverage including deposits pledged as security, came into effect on 1 January 2011. However, there can be no assurance that the level of customer deposits, and therefore of the Group's liquidity, will not be adversely affected by the withdrawal of, or any changes to, the Deposit Protection Scheme in the future.

The statutory liquidity coverage ratio ("LCR") requirement came into effect on 1 January 2015. The Group holds sufficient high quality liquidity assets ("HQLA"), which consist of cash, short terms funds, exchange fund bills, and notes to fulfill the LCR. In times of liquidity stress, the stock of HQLA can be easily and immediately converted into cash to meet unexpected and material cash outflows.

The HKMA acts as the lender of last resort to all authorised institutions in Hong Kong to provide liquidity support in the banking system generally as well as to specific institutions. As at 31 December 2016, 13.4% of BEA's interest-earning assets are acceptable to the HKMA for such emergency funding support, and such asset figures are subject to review by HKMA twice a month. Although the Hong Kong government has in the past taken measures on a case-by-case basis to maintain or restore public confidence in individual banks with an isolated liquidity crisis, there can be no assurance that the HKMA will provide such assistance in the future or that it would elect to provide such assistance in the future to BEA in the event of a liquidity crisis.

If the Group fails to maintain its expected growth rate in deposits or if a substantial portion of the Group's depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, the liquidity position, financial condition and results of operations of the Group may be materially and adversely affected and the Group may need to seek more expensive sources of funding to meet its funding requirements.

### **Interest Rate Risk**

As with most banks, the Group's net interest income is a significant factor in determining its overall financial performance. For the year ended 31 December 2014, the Group's net interest income represented approximately 69.5% of its operating income. For the years ended 31 December 2015 and 2016, the Group's net interest income from continuing operations represented approximately 75.2% and 74.7%, respectively, of its operating income from continuing operations. Although interest rates in Hong Kong have remained relatively low, an upward trend is foreseeable as a result of the anticipated increase in the interest rate in the US. However, it is difficult to predict the magnitude and

frequency of the changes in the interest rate. The Group realises income from the margin between income earned on its assets and interest paid on its liabilities. The Group's net interest rate margins, as the weighted average of the difference between interest rates on the loan advances made by, and the cost of debt funding for BEA, for the years ended 31 December 2014, 2015 and 2016 were approximately 1.78%, 1.66% and 1.60%, respectively. As some of its assets and liabilities are repriced at different times, the Group is vulnerable to fluctuations in market interest rates. As a result, volatility in interest rates could have an adverse effect on the Group's business, financial condition, liquidity and results of operations.

An increase in interest rates could lead to a decline in the value of securities in the Group's portfolio. A sustained increase in interest rates could also raise the Group's funding costs without a proportionate increase, or any increase at all, in loan demand. Rising interest rates would therefore require the Group to re-balance its assets and liabilities in order to minimise the risk of potential mismatches and maintain its profitability. In addition, high interest rate levels may adversely affect the economy in Hong Kong and the financial condition and repayment ability of its corporate and retail borrowers, including holders of credit cards, which in turn may lead to a deterioration in the Group's credit portfolio.

### **Classification of Advances and Adequacy of Allowance for Advance Losses**

In 2007, Hong Kong implemented the Revised Framework of International Convergence of Capital Measurement and Capital Standards ("**Basel II**"). In accordance with guidelines set by the HKMA, BEA obtained approval to adopt the Foundation Internal Ratings-based Approach, and classifies its advances into twenty grades under which impaired loans are classified into one of the following three categories corresponding to levels of risk: "Sub-standard", "Doubtful" and "Loss". See "*Selected Statistical and Other Information*". The classification of impaired advances depends on various quantitative and qualitative factors, including the number of months by which payments have fallen into arrears, the type of advance, the tenor of the advance and the expected recovery status of the advance.

In December 2010, the Basel Committee on Banking Supervision (the "**Basel Committee**") issued the final regulatory framework under the new Basel Capital Accord of the Bank for International Settlements (known as "**Basel III**") presenting the Committee's reforms to strengthen capital and liquidity standards in order to promote a more resilient banking sector.

In line with the international implementation timetable set by the Basel Committee, the Basel III rules pertaining to capital standards have been enacted into local banking regulations and implemented in Hong Kong on 1 January 2013.

The laws, regulations and guidelines governing the banking industry in Hong Kong differ from those applicable in certain other countries in certain respects and may result in particular advances being classified as impaired loan advances at a different time or being classified in a category reflecting a different degree of risk than would be required in certain other countries. While BEA believes that the Group's lending policies are more prudent than those that are required under Hong Kong laws and regulations, the Group is not required to maintain such policies at levels above those generally applicable to banks in Hong Kong. For a description of the banking regulations that apply to banks in Hong Kong, see "*Regulation and Supervision — Regulation and Supervision in Hong Kong*".

### **Currency Risks**

The majority of the Group's revenue is generated spot in Hong Kong dollars. Nonetheless, as at 31 December 2014, 2015 and 2016, the Group held a substantial part of its spot assets in U.S. dollars amounting to HK\$192,783 million, HK\$167,551 million and HK\$186,600 million, respectively, and Renminbi amounting to HK\$398,802 million, HK\$301,093 million and HK\$273,715 million, respectively. Although the Hong Kong dollar has been linked to the U.S. dollar since 1983, there can be no assurance that such linkage will be maintained in the future. In order to ensure continued



liquidity of the Hong Kong dollar, the HKMA has entered into bilateral repurchase agreements with the central banks of Australia, Mainland China, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand. In addition, the Hong Kong government has in the past expressed its commitment to maintaining exchange rate stability under the Linked Exchange Rate System, an automatic interest rate adjustment mechanism. However, there can be no assurance that the Hong Kong dollar will continue to be linked to the U.S. dollar or that, in the event of a liquidity problem affecting the Hong Kong dollar, such bilateral repurchase agreements or automatic interest rate adjustment mechanism will help to maintain adequate liquidity of the Hong Kong dollar. The Group's business, financial condition and results of operations could be adversely affected by the impact on the Hong Kong economy of the discontinuation of the link of the Hong Kong dollar to the U.S. dollar or any revaluation of the Hong Kong dollar.

In addition, the Group generates some of its revenue in the PRC and a portion of its assets and liabilities are denominated in Renminbi. As a result, fluctuations in the exchange rate of Renminbi against the Hong Kong dollar or the U.S. dollar could affect the Group's profitability and financial condition. The volatility in exchange rates of Renminbi against the U.S. dollar and other currencies is affected by, among other factors, changes in the PRC's and international political and economic conditions and the fiscal and monetary policies of the PRC government. Also, it is difficult to predict how the Renminbi exchange rates may change in the future. There can be no assurance that Renminbi will not experience significant fluctuations against the U.S. dollar or other currencies in the future.

### **The Group's Unsecured Lending Portfolio**

A part of the Group's corporate loan portfolio comprises unsecured loans, the repayment of which is largely dependent on the cashflow of the borrower and adherence to the financial covenants contained in the loans. The majority of the Group's personal banking loan portfolio comprises loans secured by properties while the remaining portion comprises mainly unsecured personal loans and credit card receivables, which generally carry higher rates of interest. As at 31 December 2014, 2015 and 2016, approximately 73.6%, 72.4% and 69.7%, respectively, of the Group's total advances to customers were secured. Although the Group carefully assesses the repayment ability of such borrowers, loan products which are not secured by any collateral entail a higher degree of credit risk than secured loan products. If there is a downturn in the economy, the credit quality and charge-off rates experienced by the Group may deteriorate.

### **Investments in Debt Securities**

The Group holds a portfolio of debt securities with different investment grades. The Group has analysed its investments in debt securities according to the designation of external credit institutions such as Moody's Investors Service, Inc. As at 31 December 2016, the Group had a total investment in debt securities of HK\$119,085 million, of which approximately 6% were rated Aaa, approximately 17% were rated between Aa1 to Aa3, approximately 33% were rated between A1 to A3, approximately 27% were rated lower than A3 and approximately 17% were unrated.

Given the uncertainties in the current credit and capital markets, there can be no assurance that the Group will not suffer any future marked-to-market losses on its original investment amount in its portfolio of debt securities.

### **Operational Risks Associated with the Group's Industry**

Like all other financial institutions, the Group is exposed to many types of operational risks resulting from inadequate or failed internal processes, people and systems or from external events, including the risk of fraud, unauthorised transactions or other misconduct by employees (including the violation of regulations for the prevention of corrupt practices, and other regulations governing the Group's business activities), unintentional or negligent failure to meet professional obligation to specific clients (including fiduciary and suitability requirements), or operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems.

There can be no assurance that any of such operational risks or operational errors will not materialise or occur in the future, or that, if such risks or errors do materialise or occur, the Group's business, reputation, results of operations and financial conditions will not be adversely affected. The Group is further exposed to the risk that external vendors may be unable to fulfill their contractual obligations to it (or will be subject to the same risk of fraud or operational errors by their employees).

Given the Group's high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. In addition, the Group's dependence upon automated systems to record and process transactions may further increase the risk of technical system flaws or employee tampering or manipulation of those systems that will result in losses that may be difficult to detect. The Group may also be subject to disruptions of its operating systems, arising from events that are wholly or partially beyond its control (including, for example, computer viruses or electrical or telecommunication outages), which may give rise to a deterioration in customer service and to loss or liability to it. The Group also faces the risk that the design of its controls and procedures may prove inadequate or are circumvented, thereby causing delays in detection of errors in information.

Although, like all other financial institutions, the Group maintains a system of controls designed to reduce operational risks to a reasonably low level, the Group has suffered losses from operational risks and there can be no assurance that the Group will not suffer material losses from operational risks in the future. The Group's reputation could be adversely affected by the occurrence of any such events involving its employees, customers or third parties. In addition to internal factors that may affect the Group's operations, the rapid growth and expansion of its business in recent years as compared to other banks may have also resulted in increasing complexity in its internal and external control systems and risk management measures, which may add to its operational risks.

### **Information Technology Systems**

The Group is highly dependent on the ability of its information technology systems to process accurately a large number of transactions across numerous and diverse markets and its broad range of products in a timely manner. The proper functioning of its financial control, risk management, accounting, customer service and other data processing systems, together with the communication networks between its various branches and sub-branches and its main data processing centres, are critical to its business and its ability to compete effectively. Although there is backup data for key data processing systems and the Group has established a backup system to carry on principal functions in the event of a catastrophe or a failure of its primary systems, there can be no assurance that the Group's operations will not be materially disrupted if there is a partial or complete failure of any of these primary information technology systems or communications networks. Such failures could be caused by, among other things, software bugs, computer virus attacks or conversion errors due to system upgrading. In addition, any security breach caused by unauthorised access to information or systems, loss or corruption of data and malfunction of software, hardware or other computer equipment could have a material adverse effect on the Group's business, reputation, results of operations and financial condition.

In addition, the Group's ability to remain competitive will depend in part on its ability to upgrade its information technology systems on a timely and cost-effective basis. Additionally, the information available to and received by the Group through its existing information technology systems may not be timely or sufficient for the Group to manage risks and plan for, and respond to, market changes and other developments in its current operating environment. The Group is making, and intends to continue to make, investments to improve or upgrade its information technology systems. Any substantial failure to improve or upgrade its information technology systems effectively or on a timely basis could have a material adverse effect on the Group's competitiveness, financial condition and results of operations.

## Internet Banking Services

To the extent that the Group's internet banking activities involve the storage and transmission of confidential information, security breaches could expose the Group to possible liability and damage the Group's reputation. The Group's networks may be vulnerable to unauthorised access, computer viruses and other disruptive problems. Costs incurred in rectifying any such disruptive problems may be high and may adversely affect the Group's business, financial condition and results of operations. Concerns regarding security risks may deter the Group's existing and potential customers from using its internet banking products and services. Eliminating computer viruses and alleviating other security problems may result in interruptions, delays or termination of service to users accessing the Group's Cyberbanking services. Undetected defects in software products that the Group uses when providing its Cyberbanking services, and the Group's inability to sustain a high volume of traffic, may have a material adverse effect on the Group's internet banking business.

## Different Corporate Disclosure and Regulatory Requirements

BEA's issued shares are listed on SEHK and, as such, BEA is required to publish annual audited and semi-annual unaudited financial information. The amount of information publicly available to investors in Hong Kong is governed by the Listing Rules and the Banking (Disclosure) Rules regulated by the HKMA.

Under the Banking Ordinance (Cap. 155) of Hong Kong (the "**Banking Ordinance**"), the HKMA regulates the business activities and operations of authorised institutions and has the ability to influence banking and financial markets generally. Potential investors should be aware that regulatory requirements in Hong Kong may differ from those that prevail in other countries. See "*Regulation and Supervision — Regulation and Supervision in Hong Kong.*" Since the Group operates in the highly regulated banking and securities industries in Hong Kong, potential investors should also be aware that the regulatory authorities have been consistently imposing higher standards and developing new guidelines and regulatory requirements such as the Basel III capital standards which have been adopted in Hong Kong since January 2013.

In December 2010 and January 2011, the Basel Committee issued the Basel III requirements to raise the quality, consistency and transparency of banks' capital base and new global liquidity standards. Among other things, Basel III increases the minimum capital adequacy ratio requirements in relation to risk-weighted assets, with the common equity requirement rising from 2% to 4.5% and the Tier 1 capital requirement rising from 4% to 6%. The minimum total capital requirement remains unchanged at 8%.

The initial stage of the Basel III capital reforms has been implemented by the government of Hong Kong since the beginning of 2013, and the full implementation of the reforms will be completed by 2022.

These standards require banks to disclose key pieces of information on capital, risk exposures, risk assessment processes and hence capital adequacy. The aim of the new standards is to encourage banks to demonstrate to the market participants that their risk management systems are robust and that all relevant risks have been identified and controlled.

Regarding the Basel III liquidity standards, the HKMA has publicly announced its plan to implement the standards in full following the Basel schedule and transitional arrangement. The Banking (Liquidity) Rules (Cap. 155Q) of Hong Kong have been enacted into local regulations in October 2014 and these rules have commenced operation since 1 January 2015. The Group has fully complied with the Basel III liquidity standards in accordance with the legislation. The Group's liquidity position and required disclosures have been discussed in the 2016 Annual Report.

Certain products and services provided by the Group are regulated by other regulators including the Securities and Futures Commission (the “SFC”) in Hong Kong. The Group carefully manages legal and compliance risks, including in relation to the sale of financial products and anti-money laundering regulations. Since 2007, the regulators in Hong Kong have introduced recommendations which are intended to provide tighter control and more transparency in the Hong Kong banking sector, in particular, in relation to the marketing and sale of investment and insurance products.

In May 2010, the HKMA and the SFC each launched new investor protection measures. The Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and its subsidiary legislations regulate the offering and sales of securities products as defined under Schedule 1 of the SFO. In addition to the subsidiary legislations, the HKMA has been introducing additional measures on sales of investment products, including non-SFO regulated investment products, for the banking industry in Hong Kong to observe.

Among others, the HKMA, from time to time, issues circulars in relation to the selling of investment and insurance products, which further clarified and enhanced the product due diligence process, product disclosure to customers and suitability assessment. With regards to the investment products with relatively higher risk (such as accumulators and high yield or complex bonds), the HKMA also specified the regulatory standards for selling these products.

Separately, the SFC has been revising their Code of Conduct for Persons Licensed by or Registered with the SFC (the “SFC Code”) for meriting greater protection to investors, including the reform of Professional Investor Regime in March 2016 that dis-applying most of the previous exemptions under the SFC Code to the Individual Professional Investors, and to add a new clause into client agreement for making the intermediary’s suitability obligation towards its customers as a contractual term by June 2017.

Going forward, it is foreseeable that there would be further reinforcements and more stringent requirements on the regulations, particularly those in relation to suitability of selling investment and insurance products and fairness and transparency of providing banking products and services to customers. The Group has taken steps to implement the recommendations by relevant regulators and to comply with any new or modified regulations. Increased regulation and the requirement for more stringent customer protections have increased its operational and compliance expenses. Any changes in regulation, governmental policies, income tax laws or rules and accounting principles, as well as international conventions and standards relating to commercial banking operations in Hong Kong, could affect the Group’s operations. There can be no assurance that the relevant regulatory authorities will not implement further regulations and that such change will not materially increase the Group’s operational and compliance cost or adversely affect its business or operations. There can also be no assurance that breaches of legislation or regulations by the Group will not occur and, to the extent that such a breach does occur, that significant liability or penalties will not be incurred.

#### **Recurrence of the Severe Acute Respiratory System (“SARS”), Human Swine Influenza A (H1N1), Avian or Swine Influenza, Middle East respiratory syndrome or Other Highly Contagious Diseases in Asia and Elsewhere**

In 2003, there was an outbreak of SARS, a highly contagious and potentially deadly disease in Hong Kong, along with many other countries in Asia. The SARS outbreak had a significant adverse impact on the economies of the affected countries. Since the latter half of 2005, there have been media reports regarding the spread of the H5N1 virus or “Avian Influenza A” among birds and poultry and, in some isolated cases, transmission of Avian Influenza A virus from animals to human beings. Similarly, since early 2009, there have been reports regarding the spread of the H1N1 virus or “Swine Influenza A” from animals to humans and, in some isolated cases, of human-to-human transmission of Swine Influenza A. In 2014, a number of cases of the H7N9 and H10N8 viruses, different strands of Avian Influenza A, were reported in the PRC, while a few cases of the H7N9 virus were reported in Hong Kong. In 2015, a number of cases of Middle East respiratory syndrome occurred in Korea. In 2016, a number of cases of the Zika virus were reported in Singapore.

There can be no assurance that there will not be a recurrence of the outbreak of SARS or other epidemics, or that incidents of avian or swine influenza, Human Swine Influenza A (H1N1), Middle East respiratory syndrome or Zika Virus will not increase. The SARS outbreak caused an adverse effect on the economies of the affected regions, including Hong Kong and Mainland China. Like other financial institutions, the Group's operations in those affected regions were influenced by a number of SARS-related factors including, but not limited to, a decline in demand for residential mortgage advances, a reduction in the number of customers visiting the Group's branches and an adverse impact on asset quality due to a weakened economy and higher unemployment rate. There can be no assurance that the Group's business, financial condition and result of operations would not be adversely affected if another outbreak of SARS or another highly contagious disease occurs.

### **Further Issuance of Securities**

The Group's financial condition, results of operations and capital position are affected by a range of factors such as economic conditions, interest rates, the credit environment, asset quality, operating income and level of provisioning. A slowdown in the economy could lead to a deterioration in the Group's asset quality and an increase in provisions for bad and doubtful debts, which may result in a deterioration of BEA's capital adequacy position or breach capital requirements under Hong Kong law, rules and regulations (including guidelines issued by the HKMA).

In order to strengthen its capital adequacy position or to ensure that it remains in compliance with applicable capital requirements under Hong Kong law, rules and regulations (including guidelines issued by the HKMA), the Group may from time to time raise additional capital through such means and in such manner as it may consider appropriate including, without limitation, the issue of further subordinated notes or other hybrid capital instruments, subject to any regulatory approval that may be required. There can be no assurance that such future capital raising activities will not adversely affect the market price of the Capital Securities in the secondary market.

### **OECD's Common Reporting Standard**

The Organisation for Economic Co-operation and Development (the "OECD") has developed a draft common reporting standard (the "CRS") and model competent authority agreement to enable the multilateral and automatic exchange of financial account information. The CRS does not include a potential withholding element. Under the CRS, financial institutions will be required to identify and report the tax residence status of customers in 101 countries that have endorsed the plans, of which 54 (including European Union Member States) have committed to implement the CRS with first information exchanges expected in 2017. The remaining 47 countries have committed to implement the CRS on a slower timetable with first information exchanges for these countries expected in 2018.

The adoption of the CRS in the PRC and Hong Kong will be effective from 1 January 2017. PRC and Hong Kong financial institutions may begin collecting tax residency information from their account holders as early as 1 January 2017 and may report information on reportable account holders in 2018. The increased due diligence of customer information and the reporting of information to the tax authorities will increase operational and compliance costs for banks, including the Group. At this time, it is not possible to quantify the full costs of complying with the new legislation as some aspects are still to be determined.

*This section shall be added to the section headed "Investment Considerations" before the sub-section headed "Considerations relating to Dated Subordinated Notes" on page 39 of the Original Offering Circular.*

## CONSIDERATIONS RELATING TO THE CAPITAL SECURITIES

### **The Capital Securities may not be a suitable investment for all investors**

Each potential investor in the Capital Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Capital Securities, the merits and risks of investing in the Capital Securities and the information contained or incorporated by reference in the Offering Circular or any applicable supplement;
- (b) have sufficient knowledge and experience (either alone or with the help of a financial adviser) to evaluate the effect or the likelihood of the occurrence of a Non-Viability Event for the Capital Securities which features loss absorption;
- (c) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Capital Securities and the impact such investment will have on its overall investment portfolio;
- (d) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Capital Securities, including where the currency for principal or interest payments is different from the potential investor's currency;
- (e) understand thoroughly the terms of the Capital Securities and be familiar with the behaviour of any relevant financial markets; and
- (f) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

The Capital Securities are complex financial instruments. The treatment of the Capital Securities, including in respect of tax, remains unclear. For example, as at the date of this First Supplementary Offering Circular, there has been no tax ruling from the relevant tax authorities in Hong Kong determining that Distributions on the Capital Securities are tax deductible. If, following a tax ruling determining that Distributions are tax deductible, and subsequently Distributions become no longer tax deductible as a result of any change in laws or regulations in Hong Kong, a Tax Deduction Event (as defined in the Terms and Conditions of the Capital Securities) may be triggered. Depending on how this and any other uncertainties are resolved, there could be a potential impact on the Capital Securities that may result in the Issuer having the option to exercise a call in respect of the Capital Securities. A potential investor should not invest in the Capital Securities unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Capital Securities will perform under changing conditions, including the effects of inflation, the resulting effects on the value of the Capital Securities and the impact such investment will have on the potential investor's overall investment portfolio.

### **The Capital Securities are perpetual securities and investors have no right to require redemption**

The Capital Securities are perpetual and have no maturity date. Securityholders have no right to require the Issuer to redeem their Capital Securities whereas the Issuer can redeem the Capital Securities in certain circumstances as described in the Conditions. However, the Issuer is under no obligation to redeem the Capital Securities at any time. The ability of the Issuer to redeem the Capital Securities is subject to the Issuer (a) obtaining the prior written consent of the Monetary Authority (if then required) in respect of the redemption, and (b) satisfying any conditions that the Monetary Authority may impose at that time.

This means that Securityholders have no ability to cash in their investment, except if the Issuer exercises its right to redeem the Capital Securities in accordance with the Conditions or by selling their Capital Securities. However, there can be no guarantee that the Issuer will redeem the Capital Securities and even if it does, that it will be able to meet the conditions required for redemption of the Capital Securities. Securityholders who wish to sell their Capital Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Capital Securities.

In addition, upon the occurrence of a Withholding Tax Event, a Tax Deduction Event or a Capital Event, the Capital Securities may be redeemed at the relevant redemption amount, as more particularly described in the Conditions. Also, if any Non-Viability Event occurs, as more fully described in “— *The Capital Securities are subject to Non-Viability Loss Absorption provisions*”, Securityholders may lose up to the full principal amount of the Capital Securities.

If the Capital Securities are redeemed by the Issuer in accordance with the Conditions, there can be no assurance that Securityholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Capital Securities.

### **The Issuer’s obligations under the Capital Securities are subordinated**

The Issuer’s obligations under the Capital Securities constitute direct, unsecured and subordinated obligations of the Issuer which rank *pari passu* with Parity Obligations. Subject, *inter alia*, as discussed under “— *The Capital Securities are subject to Non-Viability Loss Absorption provisions*”, to the insolvency laws of Hong Kong and other applicable laws, in the event of a Winding-Up of the Issuer (other than pursuant to a Permitted Reorganisation (as defined in Condition 3(B)), the rights of the Securityholders to payment of principal and Distributions on the Capital Securities and any other obligations in respect of the Capital Securities are expressly subordinated and subject in right of payment to the prior payment in full of all claims of such senior creditors as set out in Condition 3(B) and will rank senior to all Junior Obligations.

In the event of a Winding-Up that requires Securityholders or the Trustee to provide evidence of their claim to principal or Distribution under the Capital Securities, such claims of the Securityholders will only be satisfied after all senior ranking obligations of the Issuer have been satisfied in whole. No amount may be claimed in respect of any Distribution that has been cancelled pursuant to a Mandatory Distribution Cancellation Event or an Optional Distribution Cancellation Event.

In the event of a shortfall of funds on a Winding-Up, there is a risk that an investor in the Capital Securities will lose all or part of its investment and will not receive a full return of the principal amount or any unpaid amounts due under the Capital Securities. The Capital Securities also do not limit the Issuer’s ability or the ability of any entity in the Group to incur additional indebtedness, including indebtedness that ranks senior in priority of payment to the Capital Securities.

### **The Capital Securities are subject to Non-Viability Loss Absorption provisions**

Under the Conditions, a Non-Viability Event occurs on the earlier of: (a) when the Monetary Authority notifies the Issuer in writing that the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; or (b) when the Monetary Authority notifies the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

If a Non-Viability Event occurs and is continuing, the Issuer shall, upon the provision of a Non-Viability Event Notice (which shall be given by the Issuer not more than two Hong Kong Business Days after the occurrence of the Non-Viability Event), irrevocably reduce the then principal amount of, and cancel any accrued but unpaid Distribution in respect of, each Capital Security (in

each case in whole or in part). See “*Terms and Conditions of the Capital Securities — Distribution — Non-Viability Loss Absorption*”. The notification of a Non-Viability Event is at the discretion of the Monetary Authority and beyond the control of the Issuer. The circumstances in which such discretion is exercised are not limited and may include concerns about the Issuer’s capital, funding and/or liquidity levels.

Securityholders should note that any amount that is written down upon the occurrence of a Non-Viability Event in accordance with the Conditions is permanent and will not be restored under any circumstances, even if the relevant Non-Viability Event has ceased to continue. In addition, a Non-Viability Event may occur on more than one occasion and each Capital Security may be written down on more than one occasion. As the Distribution Rate is calculated on the basis of the principal amount as adjusted following the occurrence of a Non-Viability Event, in the event that such principal amount is permanently reduced by the relevant Write-off, Securityholders will receive less Distributions on their Capital Securities. In addition, upon the occurrence of a Non-Viability Event, Securityholders could risk losing up to the full principal amount of the Capital Securities, as well as the cancellation of any accrued (and unpaid) Distributions, without receiving any compensation for such loss or cancellation.

The application of a non-viability loss absorption feature similar to Condition 4(C) has not been tested in Hong Kong and some degree of uncertainty may exist in its application.

#### **There are exchange rate considerations in enforcement**

To the extent that the Trustee or the holders of the Capital Securities are entitled to any recovery with respect to the Capital Securities in any Hong Kong proceedings, the Trustee and such holders of the Capital Securities might not be entitled in such proceedings to a recovery in U.S. dollars and might be entitled only to a recovery in Hong Kong dollars.

In Hong Kong proceedings, if the Issuer’s assets become subject to the control of a court-appointed receiver, interest on the Capital Securities would cease to accrue on the date of the court order and the relevant U.S. dollar amounts would be converted to Hong Kong dollars as at such date for the purpose of any claims.

#### **Credit Ratings of the Capital Securities may not remain in effect**

The Capital Securities are expected to be assigned a rating of “Ba2” by Moody’s and “BB” by S&P. These ratings reflect the Issuer’s ability to make timely payments of principal and interest on the Capital Securities. A rating is not a recommendation to buy, sell or hold any security, does not address the likelihood or timing of payment of the Capital Securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. There is no assurance that the ratings assigned to the Capital Securities will remain in effect for any given period or that the ratings will not be revised by the assigning rating organisation in the future if, in its judgment, circumstances so warrant. A downgrade in ratings may affect the secondary market price of the Capital Securities.

#### **Liquidity of the Capital Securities may not develop**

There can be no assurance as to the liquidity of the Capital Securities or that an active trading market will develop. If such a market were to develop, the Capital Securities could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Issuer’s operations and the market for similar securities. The Managers are not obliged to make a market for the Capital Securities and any such market-making, if commenced, may be discontinued at any time at the sole discretion of the Managers, acting together. No assurance can be



given as to the liquidity of, or trading market for, the Capital Securities upon their listing on the SEHK. Lack of a liquid, active trading market for the Capital Securities may adversely affect the price of the Capital Securities or may otherwise impede a holder's ability to dispose of the Capital Securities.

### **Payments of Distribution are discretionary and Distributions are non-cumulative**

Payment of Distributions on any Distribution Payment Date is at the sole discretion of the Issuer. Subject to the Conditions, the Issuer may elect to or, in certain cases, be required to cancel any Distribution on any Distribution Payment Date. The Issuer may make such election for any reason. In addition, the Issuer will not be obliged to pay, and will not pay, any Distribution upon the occurrence of a Mandatory Distribution Cancellation Event or an Optional Distribution Cancellation Event. Cancelled Distributions will not be reinstated and will not constitute an event of default.

In addition, Distributions would only be paid out of such amounts for the time being available to the Issuer for distribution in compliance with section 297 of the Companies Ordinance (Cap. 622) of Hong Kong as at the Issuer's latest audited balance sheet, and subject to certain capital conservation requirements as applicable to the Issuer. As at the date of this First Supplementary Offering Circular, pursuant to section 297(1) of the Companies Ordinance (Cap.622) of Hong Kong, the Issuer may only make a distribution out of profits available for distribution. For the purposes of section 297 of the Companies Ordinance (Cap.622) of Hong Kong, the Issuer's profits available for distribution are its accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated, realised losses, so far as not previously written off in a reduction or reorganisation of capital.

Any Distributions which are not paid on the applicable Distribution Payment Date following a Mandatory Distribution Cancellation Event, an Optional Distribution Cancellation Event or a Write-off shall not accumulate or be payable at any time thereafter, whether or not funds are or subsequently become available. Securityholders will have no right thereto whether in a bankruptcy or dissolution as a result of the insolvency of the Issuer or otherwise. Therefore, any Distributions not paid following a Mandatory Distribution Cancellation Event, an Optional Distribution Cancellation Event or a Write-off will be lost and the Issuer will have no obligation to make payment of such Distributions or to pay interest thereon.

If Distributions are not paid for whatever reason, the Capital Securities may trade at a lower price. If a Securityholder sells his Capital Securities during such a period, he may not receive the same return on investment as a Securityholder who continues to hold his Capital Securities until Distributions are resumed.

### **There are limited remedies for non-payment under the Capital Securities**

Any scheduled Distribution will not be due if the Issuer elects not to pay that Distribution pursuant to the Conditions. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute winding-up proceedings is limited to circumstances where payment of principal or any Distributions on any of the Capital Securities has become due and such failure continues for a period of 14 days in the case of Distributions or seven business days in the case of principal; or where an order is made or an effective resolution passed for the Winding-Up or dissolution of the Issuer. The only remedy against the Issuer available to any Securityholders for recovery of amounts in respect of the Capital Securities following the occurrence of a payment default after any sum becomes due in respect of the Capital Securities will be instituting winding-up proceedings and/or proving and/or claiming in winding-up in respect of any of the Issuer's payment obligations arising from the Capital Securities. In such a winding-up, the claims of the Securityholder will be subordinated and subject in right of payment to the prior payment in full of all claims of such senior creditors as set out in Condition 3(B).

### **The Issuer may raise other capital which affects the price of the Capital Securities**

The Issuer may raise additional capital through the issue of other securities or other means. There is no restriction, contractual or otherwise, on the amount of securities or other liabilities which the Issuer may issue or incur and which rank senior to, or pari passu with, the Capital Securities, and there is no restriction on the Issuer issuing securities with or without Non-Viability Loss Absorption provisions (whether or not such provisions are similar to those of the Capital Securities). The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Securityholders on a dissolution or winding-up and/or may increase the likelihood of a cancellation of Distributions under the Capital Securities. The issue of any such securities or the incurrence of any such other liabilities might also have an adverse impact on the trading price of the Capital Securities and/or the ability of Securityholders to sell their Capital Securities.

### **The Trustee may decline to take actions requested by the Securityholders**

In certain circumstances (including without limitation the giving of notice to the Issuer or the institution of a winding-up proceeding against the Issuer pursuant to Condition 9), the Trustee may (at its sole discretion) request the Securityholders to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes actions on behalf of the Securityholders and shall not be obliged to take any such actions until it is indemnified and/or secured and/or pre-funded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or pre-funding can be a lengthy process and may have an impact upon when such actions can be taken. The Trustee may decline to take action requested by the Securityholders, notwithstanding the provision of an indemnity or security or pre-funding to it, where it is of the opinion that the action would be in breach of the terms of the Trust Deed (as defined in the Conditions) or where it is not satisfied that the action is permitted by applicable law or regulation and, to the extent permitted by the agreements and applicable law, it will be for the Securityholders to take such actions directly.

### **The resolution regime in Hong Kong may override the contractual terms of the Capital Securities**

In early 2014, the government of Hong Kong launched the initial stage of a public consultation on establishing a “resolution regime” for authorised institutions and other financial institutions in Hong Kong. A second consultation was launched in early 2015. A consultation response paper dated 9 October 2015 (the “**Response Paper**”) was published concluding the two consultations and summarising the key comments received and the authorities’ responses and proposals in relation to those comments. The Response Paper also discusses certain further issues which remain under development internationally. On 22 June 2016, the Financial Institutions (Resolution) Bill was passed by the Legislative Council of Hong Kong and enacted as the Financial Institutions (Resolution) Ordinance (No. 23 of 2016) on 30 June 2016 but has not yet commenced operation as at the date of this Offering Circular. The Financial Institutions (Resolution) Ordinance will come into operation on a day to be appointed by the Secretary for Financial Services and the Treasury of the Hong Kong Special Administrative Region Government (“**HKSAR**”) by notice published in the Hong Kong Government Gazette. A two-month consultation on a set of proposed regulations relating to protected arrangements under the Financial Institutions (Resolution) Ordinance was launched on 22 November 2016 and a consultation conclusion was released on 6 April 2017 setting out the relevant authorities’ responses to the comments received and the proposals to table the proposed regulations before the Legislative Council of Hong Kong in the second quarter of 2017.

The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution in Hong Kong. In particular, it has been envisaged that subject to certain safeguards, the relevant resolution authority would be provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution, including but not limited to, powers to write off or convert all or a part of the principal amount of, or interest on, the Capital Securities, and powers to amend or alter the

contractual provisions of the Capital Securities. Although the Financial Institutions (Resolution) Ordinance has not commenced operation as at the date of this First Supplementary Offering Circular, Securityholders will be subject to and bound by the Financial Institutions (Resolution) Ordinance once it comes into operation.

## TERMS AND CONDITIONS OF THE CAPITAL SECURITIES

*The following is the text of the Terms and Conditions of the Capital Securities (subject to completion and modification and excluding italicised text) which will be endorsed on each definitive certificate evidencing the Capital Securities.*

The U.S.\$500,000,000 5.625 per cent. undated non-cumulative subordinated additional Tier 1 capital securities (each a “**Capital Security**” and together, the “**Capital Securities**) of The Bank of East Asia, Limited (the “**Issuer**”) issued on 18 May 2017 (the “**Issue Date**”) are constituted by a trust deed (such trust deed as amended and/or supplemented and/or restated from time to time, the “**Trust Deed**”) dated 16 June 2014 and made between the Issuer and DB Trustees (Hong Kong) Limited (the “**Trustee**”, which expression shall include any successor as Trustee). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Capital Securities. The Securityholders (as defined below) are entitled to the benefit of, and are bound by, and are deemed to have notice of, all of the provisions of the Trust Deed, and are deemed to have notice of those provisions applicable to them of the agency agreement (such agency agreement as amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) dated 16 June 2014 and made between the Issuer, the Trustee, Deutsche Bank AG, Hong Kong Branch as issuing and paying agent (the “**Issuing and Paying Agent**”, which expression shall include any successor thereto) and as transfer agent (the “**Transfer Agent**”, which expression shall include any successor thereto), Deutsche Bank Luxembourg S.A. as registrar (the “**Registrar**”, which expression shall include any successor thereto), the other paying agents and transfer agents named therein and the Trustee. For the avoidance of doubt, references to the “**Paying Agents**” include the Issuing and Paying Agent and references to the “**Transfer Agents**” include the Transfer Agent. References to the “**Issuing and Paying Agent**”, the “**Registrar**”, the “**Transfer Agent**” and the “**Agents**” below are to the issuing and paying agent, the registrar, the transfer agent and the agents for the time being for the Capital Securities. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours at the principal office of the Trustee (presently at Level 52, International Commercial Centre, 1 Austin Road West, Kowloon, Hong Kong) and at the specified offices of the Paying Agents and the Transfer Agent.

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed.

The terms and conditions of the Notes as set out in the Offering Circular dated 16 June 2014 shall be deemed to be replaced in full by these Conditions for the purposes of the Capital Securities.

### 1 FORM, DENOMINATION AND TITLE

#### (A) *Form and Denomination*

The Capital Securities are issued in registered form in the denomination of U.S.\$200,000 each and integral multiples of U.S.\$1,000 in excess thereof (referred to as the “**principal amount**” of a Capital Security). The principal amount of a Capital Security is subject to adjustment following the occurrence of a Non-Viability Event (as defined in Condition 4(C)) in accordance with Condition 4(C) and references in these Conditions to the “principal amount” of a Capital Security shall mean the principal amount of a Capital Security as so adjusted. The Capital Securities are represented by registered certificates (“**Certificates**”) and each Certificate shall represent the entire holding of Capital Securities by the same holder. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Securityholders which the Issuer will procure to be kept by the Registrar and at the office of the Issuer.

*The Capital Securities are not issuable in bearer form.*

**(B) Title**

Title to the Capital Securities passes only by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Capital Security shall be deemed to be and may be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate)) and no person shall be liable for so treating the Securityholder.

In these Conditions, reference to “**Securityholders**” or “**holders**” in relation to any Capital Securities shall mean the persons in whose name the Capital Securities are registered.

**2 TRANSFERS OF THE CAPITAL SECURITIES**

**(A) Transfers of Interests in Capital Securities**

One or more Capital Securities may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Capital Securities to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals that have executed the form of transfer. In the case of a transfer of part only of a holding of Capital Securities represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Capital Securities and entries on the Register will be made subject to the detailed regulations concerning transfers of Capital Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Securityholder upon request.

**(B) Delivery of New Certificates**

Each new Certificate to be issued pursuant to Condition 2(A) shall be available for delivery within three business days of receipt of the form of transfer and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or any Transfer Agent (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(B), “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar or the Transfer Agent (as the case may be).

**(C) Transfers Free of Charge**

Transfers of Capital Securities and Certificates on registration or transfer shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the Transfer Agent may require) in respect of taxes or charges.

**(D) Closed Periods**

No Securityholder may require the transfer of a Capital Security to be registered (i) during the period of 15 days prior to (and including) the due date of any payment of principal or Distributions in respect of the Capital Securities or (ii) during the period commencing on the date of a Non-Viability Event Notice (as defined in Condition 4(C) below) and ending on (and including) the close of business in Hong Kong on the effective date of the related Write-off.

**(E) Exercise of Options or Partial Write-off in Respect of Capital Securities in Definitive Form**

In the case of an exercise of the Issuer's option in respect of, or a partial Write-off of (as the case may be) Capital Securities, and where a holding of Capital Securities is represented by a single Certificate, a new Certificate shall be issued to the relevant Securityholder to reflect the exercise of such option, or such partial Write-off, or in respect of the balance of the holding not redeemed or Written-off (as the case may be). New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or the Transfer Agent.

**3 STATUS AND SUBORDINATION OF THE CAPITAL SECURITIES**

**(A) Status of the Capital Securities**

The Capital Securities constitute direct, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The rights and claims of the Securityholders are subordinated in the manner described below.

**(B) Subordination**

Subject to the insolvency laws of Hong Kong and other applicable laws, in the event of a Winding-Up (as defined below) of the Issuer (other than pursuant to a Permitted Reorganisation (as defined below)), the rights of the Securityholders to payment of principal and Distributions on the Capital Securities, and any other obligations in respect of the Capital Securities, shall rank (i) subordinate and junior in right of payment to, and of all claims of, (a) all unsubordinated creditors of the Issuer (including its depositors), (b) creditors in respect of Tier 2 Capital Securities of the Issuer, and (c) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Capital Securities or rank senior to the Capital Securities by operation of law or contract; (ii) *pari passu* in right of payment to and of all claims of the holders of Parity Obligations; and (iii) senior in right of payment to and of all claims of the holders of Junior Obligations, in each case in the manner provided in the Trust Deed.

In the event of a Winding-Up that requires the Securityholders or the Trustee to provide evidence of their claim to principal or Distribution under the Capital Securities, such claims of the Securityholders will only be satisfied after all senior ranking obligations of the Issuer have been satisfied in whole. No amount may be claimed in respect of any Distribution that has been cancelled pursuant to a Mandatory Distribution Cancellation Event or an Optional Distribution Cancellation Event.

For the purposes of these Conditions:

“**Authorized Institution**” has the meaning given to that term in the Banking Ordinance (Cap. 155) of Hong Kong.

“**Capital Regulations**” means capital regulations from time to time applicable to the regulatory capital of Authorized Institutions incorporated in Hong Kong as published by the Monetary Authority.

“**Junior Obligation**” means the Shares, and any other class of the Issuer’s share capital and any instrument or other obligation (including without limitation any preference shares) issued or guaranteed by the Issuer that ranks or is expressed to rank junior to the Capital Securities by operation of law or contract.

“**Monetary Authority**” means the Monetary Authority appointed under section 5A of the Exchange Fund Ordinance (Cap 66.) of Hong Kong or any successor thereto.

“**Parity Obligation**” means any instrument or other obligation issued or entered into by the Issuer that constitutes or qualifies as Additional Tier 1 Capital (or its equivalent) under applicable Capital Regulations or any instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank *pari passu* with the Capital Securities by operation of law or contract (including, without limitation, the 318,345 Units comprising Step-Up Subordinated Notes due 2059 issued by the Issuer and Non-cumulative Step-Up Preference Shares issued by Innovate Holdings Limited and the U.S.\$650,000,000 5.50 per cent. undated non-cumulative subordinated additional Tier 1 capital securities issued by the Issuer), which for the avoidance of doubt, excludes any Junior Obligations of the Issuer.

“**Permitted Reorganisation**” means a solvent reconstruction, amalgamation, reorganisation, merger or consolidation whereby all or substantially all the business, undertaking or assets of the Issuer are transferred to a successor entity which assumes all the obligations of the Issuer under the Capital Securities.

“**Shares**” means the ordinary share capital of the Issuer.

“**Subordinated Creditors**” means all creditors the indebtedness of which is subordinated, in the event of the Winding-Up of the Issuer, in right of payment to the claims of depositors and other unsubordinated creditors of the Issuer other than those whose claims rank or is expressed to rank by operation of law or contract *pari passu* with, or junior to, the claims of the Securityholders of the Capital Securities. For this purpose indebtedness shall include all liabilities, whether actual or contingent.

“**Tier 2 Capital Securities**” means instruments categorised as Tier 2 capital pursuant to the Capital Regulations that rank or are expressed to rank senior to the Capital Securities by operation of law or contract (including, without limitation, the U.S.\$600,000,000 Subordinated Notes due 2020 issued by the Issuer, the U.S.\$500,000,000 Subordinated Notes due 2022 issued by the Issuer, the S\$800,000,000 Subordinated Notes due 2022 issued by the Issuer, the U.S.\$500,000,000 Tier 2 Capital Dated Subordinated Notes due 2024 issued by the Issuer and the U.S.\$500,000,000 Tier 2 Capital Dated Subordinated Notes due 2026 issued by the Issuer).

“**Winding-Up**” means, with respect to the Issuer, a final and effective order or resolution for the bankruptcy, winding up, liquidation, administrative receivership, or similar proceeding in respect of the Issuer.

**(C) Set-off**

Subject to applicable law, no Securityholder may exercise, claim or plead any right of set-off, counter-claim or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Capital Securities and each Securityholder shall, by virtue of being the Securityholder of any Capital Security be deemed to have waived all such rights of such set-off, counter-claim or retention.

In the event that any Securityholder nevertheless receives (whether by set-off or otherwise) directly in a Winding-Up Proceeding in respect of the Issuer any payment by, or distribution of assets of, the Issuer of any kind or character, whether in cash, property or securities, in respect of any amount owing to it by the Issuer arising under or in connection with the Capital Securities, other than in accordance with this Condition 3(C), such Securityholder shall, subject to applicable law, immediately pay an amount equal to the amount of such payment or discharge to the liquidator for the time being in the winding up of the Issuer for distribution and each Securityholder, by virtue of becoming a Securityholder or any Capital Security, shall be deemed to have so agreed and undertaken with and to the Issuer and all depositors and other unsubordinated creditors of the Issuer for good consideration.

#### 4 DISTRIBUTIONS

##### (A) DISTRIBUTION PAYMENTS

###### (i) *Non-Cumulative Distribution*

Subject to Condition 4(B) below, the Capital Securities confer a right to receive distributions (each a “**Distribution**”) on their principal amount (subject to adjustments following the occurrence of a Non-Viability Event in accordance with Condition 4(C)) from, and including, the Issue Date at the applicable Distribution Rate, payable semi-annually in arrear on 18 May and 18 November in each year (each a “**Distribution Payment Date**”).

Distributions will not be cumulative and Distributions which are not paid in accordance with these Conditions will not accumulate or compound and Securityholders will have no right to receive such Distributions at any time, even if subsequent Distributions are paid in the future, or be entitled to any claim in respect thereof against the Issuer. Unless otherwise provided in these Conditions, each Capital Security will cease to confer the right to receive any Distribution from the due date for redemption unless, upon surrender of the Certificate representing such Capital Security, payment of principal is improperly withheld or refused. In such event Distribution shall continue to accrue at such rate (both before and after judgment) until whichever is the earlier of (a) the date on which all amounts due in respect of such Capital Security have been paid; and (b) five days after the date on which the full amount of moneys payable in respect of such Capital Security has been received by the Issuing and Paying Agent and notice to that effect has been given to the Securityholders in accordance with Condition 11.

No Securityholder shall have any claim in respect of any Distribution or part thereof cancelled and/or not due or payable pursuant to Condition 4(A) and Condition 4(B) below. Accordingly, such Distribution shall not accumulate for the benefit of the Securityholders or entitle the Securityholders to any claim in respect thereof against the Issuer.

###### (ii) *Distribution Rate*

The rate of distribution (the “**Distribution Rate**”) applicable to the Capital Securities shall be:

- (a) in respect of the period from, and including, the Issue Date to, but excluding, 18 May 2022 (the “**First Call Date**”), 5.625 per cent. per annum; and
- (b) in respect of a Reset Distribution Period, the relevant Reset Distribution Rate.

For the purposes of these Conditions:

“**Calculation Agent**” means the Issuing and Paying Agent and shall include any successor as calculation agent.



**“Calculation Business Day”** means any day, excluding a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in New York City and Hong Kong.

**“Calculation Date”** means, in relation to a Reset Distribution Period, the Calculation Business Day immediately preceding the Distribution Reset Date on which such Reset Distribution Period commences.

**“Comparable Treasury Issue”** means the U.S. Treasury security selected by the Calculation Agent as having a maturity of five years that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of five years.

**“Comparable Treasury Price”** means, with respect to any Calculation Date, the average of three Reference Treasury Dealer Quotations for such Calculation Date.

**“Distribution Determination Date”** means the day falling two Business Days prior to a Distribution Payment Date.

**“Distributable Reserves”** means the amounts for the time being available to the Issuer for distribution as a distribution in compliance with section 297 of the Companies Ordinance (Cap. 622) of Hong Kong, as amended or modified from time to time, as at the date of the Issuer’s audited balance sheet last preceding the relevant Distribution Payment Date, and subject to the Monetary Authority’s then current capital conservation requirements as applicable to the Issuer on the relevant Distribution Payment Date (the **“Available Amount”**); provided that if the Issuer reasonably determines that the Available Amount as at any Distribution Determination Date is lower than the Available Amount as at the date of the Issuer’s audited balance sheet last preceding the relevant Distribution Payment Date and is insufficient to pay the Distributions and any payments due on Parity Obligations on the relevant Distribution Payment Date, then on certification by two Directors and the Auditors of such revised amount, the Distributable Reserves shall for the purposes of Distributions mean the Available Amount as set forth in such certificate.

*As at the date hereof, pursuant to section 297(1) of the Companies Ordinance (Cap. 622) of Hong Kong, the Issuer may only make a distribution out of profits available for distribution. For the purposes of section 297 of the Companies Ordinance (Cap. 622) of Hong Kong, the Issuer’s profits available for distribution are its accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated, realised losses, so far as not previously written off in a reduction or reorganisation of capital.*

**“Distribution Reset Date”** means the First Call Date and each anniversary falling five years thereafter.

**“Reference Treasury Dealer”** means each of the three nationally recognised investment banking firms selected by the Calculation Agent that are primary U.S. Government securities dealers.

**“Reference Treasury Dealer Quotations”** means with respect to each Reference Treasury Dealer and any Calculation Date, the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Calculation Agent by such Reference Treasury Dealer at 5.00 p.m. (New York City time), on the third Calculation Business Day preceding such Calculation Date.

**“Reset Distribution Rate”** means, in relation to a Reset Distribution Period, a fixed rate per annum (expressed as a percentage) equal to the aggregate of (a) the then-prevailing U.S. Treasury Rate (as determined as set out below) and (b) the Spread.

**“Reset Distribution Period”** means the period from, and including, a Distribution Reset Date to, but excluding, the immediately following Distribution Reset Date.

**“Spread”** means 3.682 per cent. per annum.

**“U.S. Treasury Rate”** means the rate in percentage per annum notified by the Calculation Agent to the Issuer and the Securityholders equal to the yield on U.S. Treasury securities having a maturity of five years as is displayed on Bloomberg page “PX1” (or any successor page or service displaying yields on U.S. Treasury securities as agreed between the Issuer and the Calculation Agent) at 5.00 p.m. (New York time) on the third Calculation Business Day preceding such Calculation Date. If such page (or any successor page or service) does not display the relevant yield at 5.00 p.m. (New York time) on the Calculation Business Date, **“U.S. Treasury Rate”** shall mean the rate in percentage per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Calculation Date.

*(iii) Calculation of Distribution and Relevant Reset Distribution Rate*

The Calculation Agent will calculate the amount of Distribution in respect of any period by applying the applicable Distribution Rate to the Calculation Amount. If Distribution is required to be paid in respect of a Capital Security on any date other than the Distribution Payment Date, it shall be calculated by applying the applicable Distribution Rate to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the principal amount of such Capital Security divided by the Calculation Amount, where:

- (a) **“Calculation Amount”** means U.S.\$1,000, subject to adjustment following occurrence of a Non-Viability Event; and
- (b) **“Day Count Fraction”** means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months).

The Calculation Agent will, on the Calculation Date prior to each Distribution Reset Date, calculate the applicable Reset Distribution Rate payable in respect of each Capital Security. The Calculation Agent will cause the Distribution and applicable Reset Distribution Rate determined by it to be promptly notified to the Issuing and Paying Agent. Notice thereof shall also promptly be given by the Calculation Agent to the Issuer, the Trustee and the Registrar.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4(A) by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Issuing and Paying Agent and the Securityholders and no liability to any such person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes unless caused directly by the fraud, gross negligence or wilful misconduct of the Calculation Agent.

*(iv) Publication of Relevant Reset Distribution Rate*

The Issuer shall cause notice of the then applicable Reset Distribution Rate to be notified to the Securityholders as soon as practicable in accordance with Condition 11 after determination thereof.

(v) *Determination or Calculation by Successor Calculation Agent*

If the Calculation Agent does not at any time for any reason so determine the applicable Reset Distribution Rate, the Issuer shall as soon as practicable appoint a reputable financial institution of good standing as a successor calculation agent to do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the successor calculation agent shall apply the foregoing provisions of this Condition 4(A), with any necessary consequential amendments, to the extent that, in the opinion of the successor calculation agent, it can do so and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(B) *Distribution Restrictions*

(i) *Optional Distribution Cancellation Event*

Unless a Distribution has already been cancelled in full pursuant to a Mandatory Distribution Cancellation Event, prior to any Distribution Payment Date the Issuer may, at its sole discretion, elect to cancel any payment of a Distribution, in whole or in part, by giving a notice to the Trustee signed by two Directors of the Issuer, which shall be conclusive and binding on the Securityholders (such notice, a “**Distribution Cancellation Notice**”) of such election to the Securityholders in accordance with Condition 11, the Trustee and the Agents at least 10 business days prior to the relevant Distribution Payment Date. The Issuer shall have no obligation to pay any Distribution on any Distribution Payment Date if it validly elects not to do so in accordance with this Condition 4(B)(i) and any failure to pay such Distribution shall not constitute an Event of Default. Distributions are non-cumulative and any Distribution that is cancelled shall therefore not be payable at any time thereafter, whether in a Winding-Up or otherwise.

(ii) *Mandatory Distribution Cancellation Event*

Notwithstanding that a Distribution Cancellation Notice may not have been given, the Issuer shall not be obliged to pay, and shall not pay, any Distribution on the applicable Distribution Payment Date, in whole or in part, as applicable, if and to the extent that:

- (a) the Distribution scheduled to be paid together with any dividends, distributions or other payments scheduled to be paid or made during the Issuer’s then current fiscal year on any Parity Obligations or any instruments which rank or are expressed to rank *pari passu* with any Parity Obligations shall exceed Distributable Reserves as at such Distribution Determination Date; or
- (b) the Monetary Authority directs the Issuer to cancel such Distribution (in whole or in part) or applicable Hong Kong banking regulations or other requirements of the Monetary Authority prevent the payment in full of dividends or other distributions when due on Parity Obligations (a “**Mandatory Distribution Cancellation Event**”).

The Issuer shall have no obligation to pay a Distribution on any Distribution Payment Date if such non-payment is in accordance with this Condition 4(B)(ii) and any failure to pay such Distribution shall not constitute an Event of Default. Distributions are non-cumulative and any Distribution which is cancelled in accordance with these Conditions shall not be payable at any time thereafter, whether in a Winding-Up or otherwise.

(iii) *Distributable Reserves*

Any Distribution may only be paid out of Distributable Reserves.

(iv) *Dividend Stopper*

If, on any Distribution Payment Date, payment of Distribution scheduled to be paid is not made in full by reason of this Condition 4(B), the Issuer shall not:

- (a) declare or pay in cash any distribution or dividend or make any other payment in cash on, and will procure that no distribution or dividend in cash or other payment in cash is made on, any Shares; or
- (b) purchase, cancel or otherwise acquire any Shares or permit any of its Subsidiaries to do so,

in each case, unless or until the earlier of: (x) the Distribution scheduled to be paid on any subsequent Distribution Payment Date (which, for the avoidance of doubt, shall exclude any Distribution that has been cancelled in accordance with these Conditions prior to such subsequent Distribution Payment Date in respect of a Distribution Payment Date preceding such subsequent Distribution Payment Date) has been paid in full (1) to Securityholders or (2) irrevocably to a designated third party trust account for the benefit of the Securityholders pending payment by the trustee thereof to the Securityholders on such subsequent Distribution Payment Date, or (y) the redemption or purchase and cancellation of the Capital Securities in full, or reduction of the principal amount of the Capital Securities to zero in accordance with these Conditions, or (z) the Issuer is permitted to do so by an Extraordinary Resolution (as defined in the Trust Deed) of the Securityholders.

(v) *No Default*

Notwithstanding any other provision in these Conditions, the cancellation or non-payment of any Distribution in accordance with this Condition 4(B) shall not constitute a default for any purpose (including, without limitation, pursuant to Condition 9(A)) on the part of the Issuer.

(C) *Non-Viability Loss Absorption*

If a Non-Viability Event occurs and is continuing, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably (without the need for the consent of the Securityholders of the Capital Securities) reduce the then principal amount of, and cancel any accrued but unpaid Distribution in respect of, each Capital Security (in each case in whole or in part) by an amount equal to the Non-Viability Event Write-off Amount per Capital Security (such reduction and cancellation, and the reduction and cancellation or conversion of any other Subordinated Capital Instruments so reduced and cancelled or converted upon the occurrence of a Non-Viability Event, where applicable, being referred to herein as the “**Write-off**”, and “**Written-off**” shall be construed accordingly).

Concurrently with the giving of the notice of a Non-Viability Event, the Issuer shall procure unless otherwise directed by the Monetary Authority that a similar notice be given in respect of other Subordinated Capital Instruments in accordance with their terms.

For the avoidance of doubt, any Write-off pursuant to this provision will not constitute an Event of Default under the Capital Securities.

Any Capital Security may be subject to one or more Write-offs in part (as the case may be), except where such Capital Security has been Written-off in its entirety. Any references in these Conditions to principal in respect of the Capital Securities shall thereafter refer to the principal amount of the Capital Securities reduced by any applicable Write-off(s).

Once the principal amount of, and any accrued but unpaid Distribution under, the Capital Securities has been Written-off, the relevant amount(s) Written-off will not be restored in any circumstances including where the relevant Non-Viability Event ceases to continue. No Securityholder may exercise, claim or plead any right to any amount that has been Written-off, and each Securityholder shall, by virtue of his holding of any Capital Securities, be deemed to have waived all such rights to such amount that has been Written-off.

For the purposes of this Condition 4(C):

**“Non-Viability Event”** means the earlier of:

- (a) the Monetary Authority notifying the Issuer in writing that the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; and
- (b) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

**“Non-Viability Event Notice”** means the notice which shall be given by the Issuer not more than two Hong Kong Business Days after the occurrence of a Non-Viability Event, to the Securityholders of the Capital Securities, in accordance with Condition 11, and to the Trustee and the Paying Agents in writing and which shall state:

- (a) in reasonable detail the nature of the relevant Non Viability Event; and
- (b) the Non-Viability Event Write-off Amount for (i) each Capital Security and (ii) each other Subordinated Capital Instrument in accordance with its terms.

**“Non-Viability Event Write-off Amount”** means the amount of distributions and/or principal to be Written-off as the Monetary Authority may direct or, in the absence of such a direction, as the Issuer shall (in consultation with the Monetary Authority) determine to be necessary to satisfy the Monetary Authority that the Non-Viability Event will cease to continue. For the avoidance of doubt, (i) the full amount of the Capital Securities will be Written-off in full in the event that the amount Written-off is not sufficient for the Non-Viability Event to cease to continue and (ii) in the case of an event falling within paragraph (b) of the definition of Non-Viability Event, the Write-off will be effected in full before any public sector injection of capital or equivalent support. Further, the Non-Viability Event Write-off Amount in respect of each Capital Security will be calculated based on a percentage of the principal amount of that Capital Security.

**“Subordinated Capital Instrument”** means any Junior Obligation, Parity Obligation or Tier 2 Capital Securities which contain provisions relating to a write-down or conversion into ordinary shares in respect of its principal amount on the occurrence, or as a result, of a Non-Viability Event and in respect of which the conditions (if any) to the operation of such provisions are (or with the giving of any certificate or notice which is capable of being given by the Issuer, would be) satisfied.

**(D) Hong Kong Bail-in Power**

Notwithstanding any other term of the Capital Securities, including without limitation Condition 4(C), or any other agreement or arrangement, each Securityholder and the Trustee shall be subject, and shall be deemed to agree and acknowledge that they are each subject, to the exercise of any Hong Kong Bail-in Power by the relevant Hong Kong Resolution Authority without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:

- (a) the reduction or cancellation of all or a part of the principal amount of, or Distributions on, the Capital Securities;
- (b) the conversion of all or a part of the principal amount of, or Distributions on, the Capital Securities into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Capital Securities; and
- (c) the amendment or alteration of the maturity of the Capital Securities or amendment or alteration of the amount of Distributions payable on the Capital Securities, or the date on which the Distributions become payable, including by suspending payment for a temporary period, or any other amendment or alteration of these Conditions.

With respect to (a), (b) and (c) above, references to principal and Distributions shall include payments of principal and Distributions that have become due and payable (including principal that has become due and payable at the maturity date), but which have not been paid, prior to the exercise of any Hong Kong Bail-in Power. The rights of the Securityholders and the Trustee under the Capital Securities and these Conditions are subject to, and will be amended and varied, if necessary, solely to give effect to, the exercise of any Hong Kong Bail-in Power by the relevant Hong Kong Resolution Authority.

No repayment of the principal amount of the Capital Securities or payment of Distributions on the Capital Securities shall become due and payable or be paid after the exercise of any Hong Kong Bail-in Power by the relevant Hong Kong Resolution Authority unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by the Issuer under the laws and regulations applicable to the Issuer and the Group.

Upon the exercise of any Hong Kong Bail-in Power by the relevant Hong Kong Resolution Authority with respect to the Capital Securities, the Issuer shall provide a written notice as soon as practicable regarding such exercise of the Hong Kong Bail-in Power to the Securityholders in accordance with Condition 11 and to the Trustee in writing.

Neither the reduction or cancellation, in part or in full, of the principal amount of, or Distributions on the Capital Securities, the conversion thereof into another security or obligation of the Issuer or another person, or any other amendment or alteration of these Conditions as a result of the exercise of any Hong Kong Bail-in Power by the relevant Hong Kong Resolution Authority with respect to the Issuer nor the exercise of the Hong Kong Bail-in Power by the relevant Hong Kong Resolution Authority with respect to the Capital Securities shall constitute an Event of Default under Condition 9(A).

*The Financial Institutions (Resolution) Ordinance (the “**Ordinance**”) was passed by the Legislative Council of Hong Kong and published in the gazette of the Hong Kong Special Administrative Region Government (the “**HKSAR Government**”) in June 2016. The Ordinance has yet to become effective and will commence operation on a date to be appointed by the*

*Secretary for Financial Services and the Treasury of the HKSAR Government pending the Legislative Council's passing of certain of the regulations to be made as subsidiary legislation under the Ordinance. It is expected that all licensed banks in Hong Kong will be subject to such legislation when it comes into effect.*

For the purposes of this Condition 4(D):

“**Group**” means the Issuer and its Subsidiaries.

“**Hong Kong Bail-in Power**” means any power which may exist from time to time under the Ordinance or any other laws, regulations, rules or requirements relating to the resolution of financial institutions, including licensed banks, deposit-taking companies, restricted licence banks, banking group companies, insurance companies and/or investment firms incorporated in or authorised, designated, recognised or licensed to conduct regulated financial activities in Hong Kong in effect and applicable in Hong Kong to the Issuer or other members of the Group, as the same may be amended from time to time (whether pursuant to the Ordinance or otherwise), and pursuant to which obligations of a licensed bank, deposit-taking company, restricted licence bank, banking group company, insurance company or investment firm or any of its affiliates can be reduced, cancelled, transferred, modified and/or converted into shares or other securities or obligations of the obligor or any other person.

“**relevant Hong Kong Resolution Authority**” means any authority with the ability to exercise a Hong Kong Bail-in Power in relation to the Issuer from time to time.

*Please see the risk factor entitled “The resolution regime in Hong Kong may override the contractual terms of the Capital Securities” for further information.*

## **5 PAYMENTS**

### **(A) Payments in Respect of the Capital Securities**

- (i) Payments of principal in respect of Capital Securities shall be made against presentation and surrender of the relevant Certificates at the specified office of the Transfer Agent or of the Registrar and in the manner provided in Condition 5(A)(ii).
- (ii) Distributions shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of Distributions in respect of each Capital Security shall be made in U.S. dollars by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Capital Security at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or the Transfer Agent before the Record Date, such payment of Distributions may be made by transfer to an account in the relevant currency maintained by the payee with a Bank; and
- (iii) Securityholders will not be entitled to any Distribution or other payment for any delay after the due date in receiving the amount due on a Capital Security if the due date is not a business day, if the Securityholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 5(A)(ii) arrives after the due date for payment.

**(B) *Payments subject to Fiscal Laws***

Payments will be subject in all cases, to (i) any fiscal or other laws and regulations applicable thereto, but without prejudice to the provisions of Condition 7, in the place of payment, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7) any law implementing an intergovernmental approach thereto.

**(C) *Appointment of Agents***

The Issuing and Paying Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the Registrar and the Transfer Agent appointed under the Agency Agreement and any Calculation Agent appointed in respect of any Capital Securities act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Securityholder. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, any Registrar, any Transfer Agent or any Calculation Agent and to appoint additional or other Paying Agents or Transfer Agents, in each case in accordance with the Agency Agreement, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) one or more Calculation Agent(s), and (v) such other agents as may be required by any other stock exchange on which the Capital Securities may be listed, in each case, as approved in writing by the Trustee.

Notice of any such change or any change of any specified office shall promptly be given by the Issuer to the Securityholders.

**(D) *Non-Business Days***

If any date for payment in respect of any Capital Security is not a business day, the holder shall not be entitled to payment until the next following business day nor to any distribution or other sum in respect of such postponed payment. In this Condition 5, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation (if presentation and/or surrender of such Capital Security is required) in New York City and Hong Kong and where payment is to be made by transfer to an account maintained with a bank in U.S. dollars, on which foreign exchange transactions may be carried on in U.S. dollars in New York City and Hong Kong.

**6 REDEMPTION AND PURCHASE**

**(A) *No Fixed Redemption Date***

The Capital Securities are perpetual securities in respect of which there is no fixed redemption date. The Capital Securities may not be redeemed at the option of the Issuer other than in accordance with this Condition.

**(B) *Redemption for Tax Reasons***

Subject to Condition 6(F), the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Trustee and the Issuing and Paying Agent and, in accordance with Condition 11, the Securityholders (which notice shall be irrevocable and shall specify the date fixed for redemption), if (a) the Issuer satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 7 as



a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date and (b) such obligation will apply on the occasion of the next payment due in respect of the Capital Securities and cannot be avoided by the Issuer taking reasonable measures available to it (a “**Withholding Tax Event**”); provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts or give effect to such treatment, as the case may be, were a payment in respect of the Capital Securities then due.

Prior to giving any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee (i) a certificate signed by two Directors of the Issuer stating that the requirement referred to in (a) above will apply on the next Distribution Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it and (ii) a copy of the written consent of the Monetary Authority as referred to in Condition 6(F); and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

Capital Securities redeemed pursuant to this Condition 6(B) will be redeemed at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 4(C).

**(C) *Redemption for Tax Deduction Reasons***

Subject to Condition 6(F), the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Trustee, the Issuing and Paying Agent and the Registrar, and, in accordance with Condition 11, the Securityholders (which notice shall be irrevocable, subject to Condition 4(C), and shall specify the date fixed for redemption), following the occurrence of a Tax Deduction Event.

For the purposes of this Condition 6(C), a “**Tax Deduction Event**” occurs if the Issuer satisfies the Trustee immediately before the giving of such notice that:

- (i) in respect of the Distributions payable on the Capital Securities, the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of computing its taxation liabilities in Hong Kong or any political subdivision or any authority thereof or therein having power to tax as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 11 May 2017; and
- (ii) such non tax deductibility cannot be avoided by the Issuer taking reasonable measures available to it, provided that: (a) the conditions for Redemption set out in Condition 6(F) have been satisfied and (b) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would cease to be able to claim a tax deduction in respect of the Distribution payable on the Capital Securities as provided in paragraph (i) above as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 11 May 2017.

Prior to the publication of any notice of redemption pursuant to this Condition 6(C), the Issuer shall deliver to the Trustee (I) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that: (1) the conditions precedent to the right of the Issuer so to redeem have occurred, and (2) such non tax deductibility cannot be avoided by the Issuer taking reasonable measures available to it and (II) a copy of the written consent of the Monetary Authority as referred to in Condition 6(F) and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

Capital Securities redeemed pursuant to this Condition 6(C) will be redeemed at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 4(C).

***(D) Redemption of the Capital Securities for Regulatory Reasons***

Subject to Condition 6(F), the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving not less than 30 nor more than 60 days' notice to the Trustee and the Issuing and Paying Agent and, in accordance with Condition 11, the Securityholders (which notice shall be irrevocable and shall specify the date fixed for redemption) following the occurrence of a Capital Event.

For the purposes of this Condition 6(D), a “**Capital Event**” occurs if the Issuer satisfies the Trustee immediately before the giving of the notice of redemption referred in this Condition 6(D) that (a) the Capital Securities, after having qualified as such, will no longer qualify (in whole or in part) as Additional Tier 1 Capital (or equivalent) of the Issuer and/or (b) the Capital Securities cease to be included in the calculation of the Issuer’s capital adequacy ratio, as a result of a change or amendment in (or any change in the application or official interpretation of) the relevant provisions of the Banking Ordinance (Cap. 155) of Hong Kong, Banking (Capital) Rules (Cap. 155L) of Hong Kong, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto, provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which it is determined that a Capital Event has occurred.

Prior to giving any notice of redemption pursuant to this Condition 6(D), the Issuer shall deliver to the Trustee (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to redeem have occurred and (ii) a copy of the written consent of the Monetary Authority; and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

Capital Securities redeemed pursuant to this Condition 6(D) will be redeemed at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 4(C).

**(E) Redemption at the Option of the Issuer**

The Issuer may, having given:

- (i) not less than 15 nor more than 45 days' notice to the Securityholders in accordance with Condition 11; and
- (ii) not less than 15 days before the giving of the notice referred to in (i) above, notice to the Trustee and the Issuing and Paying Agent and the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all but not some only of the Capital Securities then outstanding on the First Call Date or any Distribution Payment Date thereafter, at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 4(C).

*For the avoidance of doubt, the Issuer does not provide any undertaking that it will redeem the Capital Securities at any time.*

**(F) Conditions for Redemption and Purchase in Respect of the Capital Securities**

Notwithstanding any other provision in these Conditions, the Issuer shall not redeem any of the Capital Securities (other than pursuant to Condition 9) and neither the Issuer nor any of its Subsidiaries shall purchase any of the Capital Securities unless the prior written consent of the Monetary Authority thereto shall have been obtained, to the extent such consent is required under the Banking Ordinance (Cap. 155) of Hong Kong, Banking (Capital) Rules (Cap. 155L) of Hong Kong, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto.

For the avoidance of doubt, this provision shall not apply to the Issuer or any of its Subsidiaries holding the Capital Securities in a purely nominee capacity.

In these Conditions, a “**Subsidiary**” of the Issuer means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer.

**7 TAXATION**

All payments of principal and distributions by or on behalf of the Issuer in respect of the Capital Securities shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. If the Issuer is required to make a deduction or withholding by or within Hong Kong, the Issuer shall pay such additional amounts as shall result in receipt by the Securityholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Capital Security:

- (i) *Other connection:* to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Capital Securities by reason of his having some connection with Hong Kong other than the mere holding of the Capital Securities; or

- (ii) *Presentation more than 30 days after the Relevant Date*: presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

Notwithstanding any other provision of the Terms and Conditions or the Trust Deed, any amounts to be paid on the Capital Securities by or on behalf of the Issuer, will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a “**FATCA Withholding**”). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

As used in these Conditions, “**Relevant Date**” in respect of any Capital Security means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Securityholders that, upon further presentation of the Capital Security (or relative Certificate) being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

References in these Conditions to (a) “**principal**” shall be deemed to include any premium payable in respect of the Capital Securities, and all amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (b) “**distributions**” shall be deemed to include all Distributions and all other amounts payable pursuant to Condition 4 or any amendment or supplement to it and (c) “**principal**” and/or “**distributions**” shall be deemed to include any additional amounts that may be payable under this Condition 7 or any undertaking given in addition to or in substitution for it under the Trust Deed.

## **8 PRESCRIPTION**

Claims against the Issuer for payment in respect of the Capital Securities shall be prescribed and will become void unless made within a period of 10 years (in the case of principal) or five years (in the case of Distribution) from the Relevant Date (as defined in Condition 7).

## **9 EVENTS OF DEFAULT AND ENFORCEMENT**

### **(A) *Events of Default and Winding-up Proceedings***

- (i) If default is made in the payment of any amount of principal or Distributions in respect of the Capital Securities on the due date for payment thereof and such failure continues for a period of seven days in the case of principal or 14 days in the case of Distribution (each, an “**Event of Default**”) then in order to enforce the obligations of the Issuer, the Trustee at its sole discretion may and, if so requested in writing by holders of at least 25 per cent. in principal amount of the outstanding Capital Securities or if so directed by an Extraordinary Resolution (as defined in the Trust Deed), shall (subject to the Trustee having been indemnified and/or provided with security and/or put in funds to its satisfaction) institute a Winding-Up Proceeding against the Issuer. For the avoidance of doubt, no Distribution will be due and payable if such Distribution has been cancelled or is deemed cancelled (in each case, in whole or in part) in accordance with these Conditions. Accordingly, no default in payment under the Capital Securities will have occurred or be deemed to have occurred for the non-payment of any Distribution that has been so cancelled or deemed cancelled.

- (ii) If an order is made or an effective resolution is passed for the Winding-Up of the Issuer (whether or not an Event of Default has occurred and is continuing) then the Trustee at its sole discretion may and, if so requested in writing by holders of at least 25 per cent. in principal amount of the outstanding Capital Securities or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or put in funds to its satisfaction) give written notice to the Issuer declaring the Capital Securities to be immediately due and payable, whereupon they shall become immediately due and payable at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of actual payment, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 4(C), without further action or formality.

In these Conditions:

“**Winding-Up Proceedings**” means, with respect to the Issuer, proceedings in Hong Kong for the bankruptcy, liquidation, winding-up, administrative receivership, or other similar proceeding of the Issuer (as applicable).

**(B) Enforcement**

- (i) Without prejudice to Condition 9(A), the Trustee may subject as provided below, at its discretion and without further notice, institute such proceedings against the Issuer if the Issuer fails to perform, observe or comply with any obligation, condition or provision relating to the Capital Securities binding on it under these Conditions or the Trust Deed (other than any obligation of the Issuer for the payment of any principal or Distributions in respect of the Capital Securities), provided that the Issuer shall not as a consequence of such proceedings be obliged to pay any sum or sums representing or measured by reference to principal or Distributions in respect of the Capital Securities sooner than the same would otherwise have been payable by it.
- (ii) The Trustee shall not be bound to take action as referred to in Conditions 9(A) and 9(B)(i) or any other action under these Conditions or the Trust Deed unless (a) it shall have been so requested in writing by Securityholders holding at least 25 per cent. in principal amount of the Capital Securities then outstanding or if so directed by an Extraordinary Resolution of the Securityholders and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.
- (iii) No Securityholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing.
- (iv) Subject to applicable laws, no remedy (including the exercise of any right of set-off or analogous event) other than those provided for in Condition 9(A) and Conditions 9(B)(i) and 9(B)(ii) above or submitting a claim in the Winding-Up of the Issuer will be available to the Trustee or the Securityholders.
- (v) No Securityholder shall be entitled either to institute proceedings for the Winding-Up of the Issuer or to submit a claim in such Winding-Up, except that if the Trustee, having become bound to institute such proceedings as aforesaid, fails to do so, or, being able and bound to submit a claim in such Winding-Up, fails to do so, in each case within a reasonable period and such failure is continuing, then any such Securityholder may, on giving an indemnity and/or security and/or pre-funding satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute Winding-Up Proceedings and/or submit a claim in the Winding-Up of the Issuer to the same extent (but not further or otherwise) that the Trustee would have been entitled to do.

## 10 MEETINGS OF SECURITYHOLDERS, MODIFICATIONS AND CONSOLIDATIONS

### (A) *Meetings of Securityholders*

The Trust Deed contains provisions for convening meetings of Securityholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee if requested in writing to do so by Securityholders holding not less than 10 per cent. in principal amount of the Capital Securities for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing more than 50 per cent. in principal amount of the Capital Securities for the time being outstanding, or at any adjourned meeting two or more persons being or representing Securityholders whatever the principal amount of the Capital Securities held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Capital Securities or any date for payment of distribution or Distributions on the Capital Securities, (ii) to reduce or cancel the principal amount of, or any premium payable on redemption of, the Capital Securities, (iii) to reduce the rate or rates of distributions in respect of the Capital Securities or to vary the method or basis of calculating the rate or rates or amount of distributions or the basis for calculating any distribution in respect of the Capital Securities, (iv) to vary any method of, or basis for, calculating the relevant redemption amount, (v) to vary the currency or currencies of payment or denomination of the Capital Securities, or (vi) to modify the provisions concerning the quorum required at any meeting of Securityholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Capital Securities for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on the Securityholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the Securityholders of not less than 90 per cent. in principal amount of the Capital Securities for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Securityholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Securityholders.

### (B) *Modifications and Waivers*

#### (i) *Modification*

The Trustee may (but shall not be obliged to) agree, without the consent of the Securityholders, to (a) any modification of any of the provisions of the Trust Deed or these Conditions that is of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law, and (b) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed and/or these Conditions that is in the opinion of the Trustee not materially prejudicial to the interests of the Securityholders. Any such modification, authorisation or waiver shall be binding on the Securityholders, and unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified to the Securityholders as soon as practicable.

(ii) *Substitution*

The Trust Deed contains provisions permitting (but not obliging) the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Securityholders, to the substitution of the Issuer's successor in business or any Subsidiary of the Issuer or its successor in business or any holding company of the Issuer or any other subsidiary of any such holding company or their respective successor in business in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Capital Securities. In the case of such a substitution the Trustee may agree, without the consent of the Securityholders, to a change of the law governing the Capital Securities and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Securityholders.

(C) *Entitlement of the Trustee*

In connection with the exercise of its functions, powers, rights and discretions (including but not limited to those referred to in this Condition 10), the Trustee shall have regard to the interests of the Securityholders as a class and shall not have regard to the consequences of such exercise for individual Securityholders and the Trustee, acting for and on behalf of Securityholders, shall not be entitled to require, nor shall any Securityholder be entitled to claim, from the Issuer or the Trustee any indemnification or payment in each case in respect of any tax consequence of any such exercise upon individual Securityholders.

## 11 NOTICES

Notices to the holders of the Capital Securities shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing and, so long as the Capital Securities are listed on a stock exchange or admitted to trading by another relevant authority and the rules of that exchange or a relevant authority so require, published in a daily newspaper having general circulation in the place or places required by those rules. If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

*So long as the Capital Securities are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream or any other clearing system, notices to the holders of the Capital Securities may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions.*

## 12 INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Securityholders on any report, confirmation or certificate or any advice or opinion of any legal counsel, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate, advice or opinion, in which event such report, confirmation, certificate, advice or opinion shall be binding on the Issuer and the Securityholders.

### **13 REPLACEMENT OF CERTIFICATES**

If a Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent and of the Registrar, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Certificate is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Certificates) and otherwise as the Issuer may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

### **14 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of the Capital Securities under the Contracts (Rights of Third Parties) Act 1999.

### **15 GOVERNING LAW AND SUBMISSION TO JURISDICTION**

#### **(A) *Governing Law***

The Trust Deed, the Capital Securities and any non-contractual obligations arising out of or in connection with the Trust Deed and the Capital Securities are governed by, and shall be construed in accordance with, English law, save that the subordination provisions set out in Condition 3(B) (and related provisions of the Trust Deed) shall be governed by, and construed in accordance with, the laws of Hong Kong.

#### **(B) *Submission to Jurisdiction***

The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Capital Securities and accordingly any legal action or proceedings arising out of or in connection with any Capital Securities (a “**Dispute**”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

#### **(C) *Appointment of Process Agent***

The Issuer has irrevocably appointed its London Branch at its registered office for the time being in England, currently at 75 Shaftesbury Avenue, London W1D 5BB (Attention: Assistant Securities Manager) as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of the Issuer’s London Branch being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Dispute and will notify the Trustee of such new process agent within 30 days of the Issuer’s London Branch becoming unable or unwilling for any reason so to act. Nothing herein shall affect the right to serve process in any other manner permitted by law.

### **16 HEADINGS**

Headings are for convenience only and do not affect the interpretation of these Conditions.



## CAPITALISATION AND INDEBTEDNESS

*This section replaces the section headed “Capitalisation and Indebtedness” included on pages 47 to 48 of the Original Offering Circular in its entirety.*

As at 31 December 2016, BEA issued and fully paid up share capital of approximately HK\$35,490 million consisting of approximately 2,703 million ordinary shares.

The following table sets out the Group’s consolidated capitalisation and indebtedness as at 31 December 2016 and as adjusted for the issue of the Capital Securities.

	As at 31 December 2016	
	Actual	As adjusted
	HK\$ (in millions)	HK\$ (in millions)
Short-term borrowings <sup>(1)</sup>		
Customer deposit accounts . . . . .	513,406	513,406
Certificates of deposits in issue . . . . .	28,014	28,014
Deposits from banks . . . . .	26,233	26,233
Debt securities issue . . . . .	5,425	5,425
Loan capital . . . . .	8,165	8,165
Total short-term borrowings . . . . .	<u>581,243</u>	<u>581,243</u>
Medium-term borrowings <sup>(2)</sup>		
Customer deposit accounts . . . . .	22,383	22,383
Certificates of deposits in issue . . . . .	843	843
Debt securities issued . . . . .	1,729	1,729
Deposits from banks . . . . .	242	242
Loan capital . . . . .	12,443	12,443
Total medium-term borrowings . . . . .	<u>37,640</u>	<u>37,640</u>
Long-term borrowings <sup>(3)</sup>		
Loan capital . . . . .	—	—
Customer deposit accounts . . . . .	—	—
Certificates of deposits in issue . . . . .	—	—
Deposits from banks . . . . .	—	—
Total long-term borrowings . . . . .	<u>—</u>	<u>—</u>
Capital resources		
Share capital . . . . .	35,490	35,490
Reserves . . . . .	42,941	42,941
Proposed dividends . . . . .	—	—
Shareholders’ funds . . . . .	<u>78,431</u>	<u>78,431</u>
Additional equity instruments . . . . .	5,016	5,016
Total Capital Securities to be issued <sup>(4)</sup> . . . . .	—	3,900
Non-controlling interests . . . . .	<u>3,189</u>	<u>3,189</u>
Total capital resources . . . . .	<u>86,636</u>	<u>90,536</u>
Total capitalisation <sup>(5)</sup> . . . . .	<u>124,276</u>	<u>128,176</u>
Short-term borrowings and total capitalisation . . . . .	<u>705,519</u>	<u>709,419</u>

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*Notes:*

- (1) Short-term borrowings refer to borrowings of remaining maturity of not more than one year.
- (2) Medium-term borrowings refer to borrowings of remaining maturity of over one year to five years.
- (3) Long-term borrowings refer to borrowings of remaining maturity of more than five years.
- (4) Capital Securities to be issued of U.S.\$500,000,000 (before deducting the fees and commissions and other estimated expenses payable in connection with the offering of the Capital Securities) have been translated into HK\$ for convenience purpose at a rate of U.S.\$1.00 to HK\$7.80 which was the approximate rate as at 30 April 2017.
- (5) Total capitalisation comprises total medium-term borrowings, total long-term borrowings and total capital resources.

Save as disclosed in this Offering Circular, there has been no material change in the Group's total capitalisation and indebtedness since 31 December 2016.

## BUSINESS OF THE GROUP

*This section replaces the section headed “Business of the Group” included on pages 49 to 76 of the Original Offering Circular in its entirety.*

### INTRODUCTION

#### Overview

Incorporated in 1918, BEA is the largest independent local bank in Hong Kong in terms of assets. As at 31 December 2016, the Group’s total consolidated assets, advances to customers and total deposits were HK\$765.7 billion (U.S.\$98.2 billion), HK\$454.2 billion (U.S.\$58.2 billion) and HK\$564.6 billion (U.S.\$72.4 billion), respectively.

BEA obtained listing status on SEHK in the 1930s. As at 31 March 2017, approximately 2,723.43 million ordinary shares have been issued and are outstanding and have been fully paid. Based on the closing price of its shares on SEHK as at 31 March 2017, BEA’s market capitalisation was approximately HK\$87,558.43 million (U.S.\$11,225 million). BEA’s shares have been a constituent stock of the Hang Seng Index since 1984.

The Group provides a comprehensive range of corporate banking, personal banking, wealth management and investment services. The Group’s products and services include syndicated loans, trade finance, deposit-taking, foreign currency savings, remittances, mortgage loans, consumer loans, credit cards, Cyberbanking, retail investment and wealth management services, private banking, Renminbi services, foreign exchange margin trading, brokerage services, Mandatory Provident Fund (“MPF”) services and general and life insurance.

In addition, through BEA’s wholly-owned subsidiaries, the Group is able to broaden its service offering to its customers. BEA Life and Blue Cross serve as the Group’s life insurance and general insurance arms respectively providing a comprehensive range of insurance solutions including life and non-life insurance products and services for individual and corporate customers.

As at 4 May 2017, the Group offered a broad range of banking and related financial services in Hong Kong through a network of 78 branches, 55 SupremeGold Centres for high net-worth customers, and ten i-Financial Centres. Outside Hong Kong, as at 4 May 2017, the Group’s operations included a total of 116 outlets in Mainland China, four outlets in Macau, two outlets in Taiwan (including a Taiwan Offshore Banking Branch in Taipei), and nine outlets in Singapore, Malaysia, the United Kingdom and the United States.

BEA is one of the first foreign banks to have received approval to establish a locally-incorporated bank in Mainland China. As a locally-incorporated bank and a wholly-owned subsidiary of BEA, BEA (China) obtained the Financial Institution Business Permit from CBRC on 20 March 2007 and the business licence from SAIC on 29 March 2007, BEA (China) officially commenced business on 2 April 2007. BEA (China) provides comprehensive RMB and foreign currency banking services to all customers. Services include personal banking and wealth management, loans and advances, debit cards and credit cards, Cyberbanking and cash management, private banking, investment and derivative products, agency services for life and general insurance, remittance and settlement, RMB cross-border business, trade finance facilities, supply chain financing, standby letters of credit, bank guarantees and distribution of local mutual funds.

As at 4 May 2017, BEA (China), with its headquarters in Shanghai, operated 30 branches and 84 sub-branches in Mainland China. In addition to the BEA (China)’s network, BEA operated a rural bank in Fuping County, Weinan City in Shaanxi province as at 4 May 2017. As at 31 December 2016, the Group’s total loans to customers and trade bills increased by 1.1% while its customer deposits decreased by 0.9% over the figures reported at 31 December 2015.

As at 31 December 2014, 2015 and 2016, the assets of the Group's operations in Mainland China, Taiwan and Macau collectively accounted for approximately 45.4%, 39.5% and 37.3% of the total assets of the Group, respectively. The corresponding figures for Hong Kong as at 31 December 2014, 2015 and 2016 were 58.5%, 59.6% and 60.4%, respectively. For the year ended 31 December 2014, the profit before taxation of the Group's operations in Mainland China, Taiwan and Macau collectively accounted for approximately 32.5% of the Group's consolidated profit before taxation. The corresponding figure for Hong Kong for the year ended 31 December 2014 was approximately 49.0%. For the years ended 31 December 2015 and 2016, the profit/loss before taxation from continuing operations of the Group's operations in Mainland China, Taiwan and Macau collectively accounted for approximately 11.8% and (2.1)% of the Group's consolidated profit before taxation from continuing operations, respectively. The corresponding figures for Hong Kong for the years ended 31 December 2015 and 2016 were approximately 67.4% and 74.9%, respectively.

The majority of the Group's lending is on a secured basis and adheres to pre-established loan-to-value limitations depending on the underlying collateral and the credit risk of customers. Security typically consists of a first legal charge over real property, listed securities and cash deposits. Some of the Group's lending is on a guaranteed basis.

As at 31 December 2014, 2015 and 2016, the Group's total capital ratio was approximately 16.7%, 17.2% and 17.4%, respectively, compared with the statutory minimum requirement of 8.0%. As at 31 December 2014, 2015 and 2016, the Group's CET1 ratio was approximately 11.8%, 12.2% and 12.1%, respectively. As at 31 December 2014, 2015 and 2016, the Group's loan to deposit ratio was approximately 74.8%, 76.4% and 80.4%, respectively. The Group's consolidated average LCR was 137.2% for the fourth quarter of 2016, which is above the statutory minimum requirement of 70%. See "*Selected Statistical and Other Information*" for further details.

The Group relies on its deposit base for the majority of its funding requirements. As at 31 December 2014, 2015 and 2016, the Group's customer deposits accounted for approximately 82.4%, 84.4% and 86.6%, respectively, of its borrowed funds. The remainder of the Group's funding requirements as at 31 December 2014, 2015 and 2016 were primarily satisfied through the issuance of certificates of deposit and debt securities and, particularly for its RMB funding requirements, through interbank borrowings.

In order to diversify the Group's RMB funding sources, BEA (China) issued RMB4 billion in aggregate principal amount of RMB retail bonds in Hong Kong in July 2009. BEA (China) issued its first and second batches of RMB financial bonds with the issue sizes of RMB2 billion and RMB3 billion in Mainland China's interbank bond market in March 2011 and November 2011, respectively, and issued RMB1 billion in aggregate principal amount of senior unsecured bonds in Hong Kong in May 2012.

For the year ended 31 December 2016, the Group's profit after taxation from continuing operations was HK\$3,525 million (US\$452 million), representing a decrease of approximately 33.9% from the year ended 31 December 2015. For the year ended 31 December 2015, the Group's profit after taxation from continuing operations was HK\$5,336 million (U.S.\$684 million). For the year ended 31 December 2014, the Group's profit after taxation was HK\$6,774 million (U.S.\$868 million).

For the years ended 31 December 2014, 2015 and 2016, the Group achieved an annualised return on average assets of approximately 0.8%, 0.6% and 0.4%, respectively, and an annualised return on average equity of approximately 9.6%, 6.6% and 4.1%, respectively.

## History

Since its founding in 1918, BEA has dedicated itself to delivering professional banking services to the local community in Hong Kong, particularly small and medium enterprises. BEA set up its first branch in Mainland China in Shanghai in 1920 and has operated in Mainland China ever since. As such, the Group is well positioned to provide banking services to customers in Hong Kong, Mainland China, Taiwan, Macau and major Chinese communities overseas.

In 1975, BEA launched the first Hong Kong dollar credit card in conjunction with Bank of America, called the East Asia BankAmericard/VISA. In 1979, the East Asia BankAmericard/VISA credit card became the first credit card that was accepted in Mainland China as a result of an agreement between BEA and the Bank of China on foreign currency credit card settlement services.

BEA is one of the founders of Joint Electronic Teller Services Ltd. (“**JETCO**”), which was formed to set up a network of ATMs in Hong Kong and Macau. BEA is also one of the founders of EPS Company (Hong Kong) Limited (“**EPSCO**”) in Hong Kong, which was formed to facilitate the electronic transfer of funds at the point of sale. In 1999, BEA was the first bank in Hong Kong to launch online stock trading through its wholly-owned subsidiary, East Asia Securities Company Limited (“**East Asia Securities**”). BEA was also the first bank in Hong Kong to provide comprehensive internet banking services to its customers, through its award-winning Cyberbanking service.

In 2008, BEA (China) became the first foreign bank to launch RMB debit cards and RMB credit cards in Mainland China.

In June 2009, BEA entered into a number of strategic co-operation agreements with Criteria CaixaCorp, S.A. (which changed its name to CaixaBank S.A. on 30 June 2011) (“**CaixaBank**”), a Spanish listed holding company controlled by “la Caixa”, a major shareholder of BEA and a leading financial institution in Spain. The agreements enable BEA to leverage the extensive resources of CaixaBank to further develop its business, including cross-border referrals, training and knowledge transfer as well as funding. The alliance with “la Caixa” group also enhances BEA’s access to the financial industry in Spain, Europe and Latin America, and creates opportunities for potential joint business development in the Asia-Pacific region.

In July 2009, BEA (China) became the first locally-incorporated foreign bank to issue RMB retail bonds to retail investors and raised RMB4 billion through its debut issue of RMB bonds in Hong Kong. In September 2009, BEA (China) was granted the status of Domestic Settlement Bank and Domestic Agent Bank for cross-border RMB trade settlement services, and completed its first cross-border RMB trade settlement transaction. In November 2010, BEA (China) completed its first cross-border RMB transaction for foreign direct investment.

In June 2013, BEA (China) was among the first batch of foreign banks to be granted a local mutual fund distribution licence in Mainland China. In February 2014, BEA (China) became the first foreign bank approved by PBOC to act as a reserve bank for payment institutions. In October 2015, BEA (China) was one of the first foreign banks to be qualified as a direct participating bank of the Cross-border Interbank Payment System.

On 18 March 2015, BEA entered into a subscription agreement (the “**Subscription Agreement**”) with Sumitomo Mitsui Banking Corporation (“**SMBC**”) in relation to the subscription by SMBC for 222,600,000 new shares of BEA (the “**Subscription**”). In addition, BEA entered into an investment agreement (the “**Investment Agreement**”) with SMBC regarding certain arrangements in respect of SMBC’s investment in BEA which were intended to have effect upon completion of the Subscription. Completion of the Subscription took place on 27 March 2015 and the obligations of BEA and SMBC pursuant to the Investment Agreement became effective on the same date. BEA is required to comply with all applicable laws and regulations (including the Listing Rules), the articles of association of BEA as well as any applicable internal corporate procedures when performing its obligations under

the Investment Agreement and the Subscription Agreement, including in respect of any matters concerning the board representation of SMBC, having regard to the requirement in the Listing Rules to treat all shareholders fairly and equally. The Investment Agreement will terminate and the rights and obligations of BEA and SMBC pursuant to it (including the board representation right of SMBC thereunder) will cease upon, among other things, SMBC (together with its affiliates) being interested in less than 5% of the total number of issued shares of BEA from time to time. As at 31 December 2016, SMBC and Sumitomo Mitsui Financial Group, Inc. (“SMFG”) held approximately 19.57% of the total number of issued shares of BEA. SMBC is headquartered in Tokyo, Japan, and is a wholly-owned subsidiary of SMFG. SMFG is a leading financial institution in Japan as well as a global provider of financial services. SMBC (together with its affiliates) held a 100% interest in SMBC Nikko Capital Markets Limited as at the date of this First Supplementary Offering Circular.

On 23 October 2015, BEA entered into a share purchase agreement with SinoPac Securities (Cayman) Holdings Limited (“SPSC”), on the sale of all the issued shares in Tung Shing Holdings Company Limited (“Tung Shing”) by BEA to SPSC. On the same date, BEA also entered into an agreement with SinoPac Securities Corporation (“SinoPac Securities”) to dispose of all the issued shares in BEA Wealth Management Services (Taiwan) Limited (“BEAWMS”) through the merger of BEAWMS into SinoPac Securities. The disposals were completed during the period ended 30 June 2016.

In 2016, BEA received a number of awards in recognition of its achievements, including:

- “Best Managed Bank in Hong Kong 2016” from The Asian Banker;
- “Best Bank in Hong Kong 2016” from Global Finance;
- “Hong Kong Outstanding Enterprises 2016” from Economic Digest;
- “HK 50+ Award — Banking” from Christian Family Service Centre;
- “2016 Best SME’s Partner Award” (for the ninth consecutive year) from The Hong Kong General Chamber of Small and Medium Business;
- “Quamnet Outstanding Enterprise Award 2015 – Outstanding SME Service Provider (Bank)” (for the third consecutive year) from Quam (H.K.) Limited;
- “Outstanding Corporate Banking Services Award 2015” (for the third consecutive year) and “Outstanding Corporate Banking Renminbi Services Award” (for the third consecutive year) from Wen Wei Po;
- “Outstanding Import and Export Industry Partner Award” (for the third consecutive year) from The Hong Kong Chinese Importers’ & Exporters’ Association;
- “The 10th Hong Kong Institute of Bankers Outstanding Financial Management Planner Award — Top Nominations Award” from Hong Kong Institute of Bankers and BENCHMARK Magazine;
- “Best Mobile Banking — Hong Kong 2016” from International Finance Magazine;
- “The Best Digital Branch” in the e-Brand Awards 2016 from Hong Kong Economic Times;
- “Best FinTech Grand Award”, “Best FinTech (Banking and Insurance) Gold Award”, and “Best Mobile Apps (Consumer Solutions) Gold Award” in Hong Kong ICT Awards 2016;
- “e-Banking – Excellence” and “Digital Innovation – Outstanding Performance” in Bloomberg Businessweek Chinese Edition Financial Institution Awards 2016;

- “The Best Travel Card Programme Launched in 2015 in Hong Kong – BEA Flyer World MasterCard”, “The Highest Growth of Open Cards in 2015 in Hong Kong – Winner”, “The Highest Market Share of Contactless Spending in 2015 in Hong Kong”, and “The Highest Market Share of Super Premium Card Spending in 2015 in Hong Kong – 2nd Runner Up” from MasterCard Worldwide; and
- “2015 Exclusive Year-round Promotion Platform” from UnionPay International.

In addition, BEA (China) earned the following distinctions:

- “Best Brand-building Foreign Bank in 2016 — Golden-shell Award of China” from 21st Century Business Herald;
- “2016 Institutional Contribution Award” in the Annual Shanghai Financial Institutions Awards Programme from the Shanghai Banking Association;
- “2015 China Internet Financial Innovation Award” (for BEA China’s Electronic Banking Business) from the Internet Society of China (“ISC”), Internet Finance Working Committee of ISC, and China Electronic Finance Industry Alliance;
- “Best Wealth Management Bank” in the 2015 Shanghai Top Finance List from the Oriental Morning Post and The Paper;
- “Best Social Media Project” in The Asian Banker’s China Country Awards for 2016 from The Asian Banker;
- “Advanced Corporate Award” in the 2015 China Banking Industry Online Competition on the Knowledge of Consumer Rights Protection from the China Banking Association; and
- “Best Wealth Management Bank” in the 7th Golden Tripod Award from the National Business Daily.

Blue Cross (Asia-Pacific) Insurance Limited won “The Most Favourite Travel Insurance Company Award 2016” (for the twelfth consecutive year) from Weekend Weekly Magazine.

Credit Gain Finance Company Limited (“CGFC”) also won the following awards in recognition of its performance:

- “Metro Awards for Banking and Finance Corporations 2016 — The Best Brand in Loans” (for the fifth consecutive year) from Metro Prosperity Magazine;
- the “Finance Service Award” in Capital Weekly’s 2016 Service Awards (for the fourth consecutive year); and
- “Capital Weekly Service Awards 2016 — Finance Service” (for the fourth consecutive year) from Capital Weekly Magazine.

BEA Union Investment Management Limited also received a number of awards in recognition of the performance of its funds. The BEA Union Investment Asian Bond and Currency Fund received the following awards (for the fourth consecutive year):

- “The Asset Benchmark Research 2016 — One of the Top Investment Houses in Asian Local Currency Bonds — Hong Kong” from The Asset;
- “Best of the Best Performance Awards 2015 — Asian Bonds” from Asia Asset Management (for its 3-year performance);

- “Best Bond Fund, Asia Pacific — Local Currency” from Lipper Fund Awards Programme 2016 Hong Kong (for its 3-year performance); and
- “2016/17 FSM Fund Picks — Fixed Income” from Fundsupermart.com.

The BEA Union Investment Global Resources Fund was awarded “2016/17 FSM Fund Picks — Global Resource Sector Equity” from Fundsupermart.com.

In 2016, BEA also received a number of awards in recognition of its corporate social responsibility efforts.

## **STRATEGY**

BEA’s core objectives are to strengthen its position and to further develop its domestic franchise as the largest independent local bank in Hong Kong, and to further diversify its operations and expand its operations in Mainland China and other overseas countries. The Group will continue to maintain its growth strategy for its businesses and operations and, at the same time, keep up the process of enhancing its cost-to-income performance. Given the increasingly close economic connection among Mainland China, Hong Kong and the countries of Southeast Asia, the Group will continue to integrate its services across Hong Kong, Mainland China and international networks. The key components of the Group’s strategy are below.

### **Further Expansion in Mainland China and Other Overseas Countries**

The Group intends to continue to develop its business in Mainland China and other overseas markets. The Mainland China market remains an important focus for the Group. The Group intends to consolidate and strengthen its position in Mainland China through capitalising on opportunities arising from the liberalisation of the banking sector and the internationalisation of RMB. Through the establishment of a locally-incorporated bank, BEA (China), the Group is able to provide a comprehensive range of RMB and foreign currency banking products and services to customers in Mainland China. BEA (China) will continue to optimise the use of its assets and its Mainland China — Hong Kong connection to deliver a wide range of tailored services for its customers, in particular to meet the demands of high net-worth and corporate customers in Mainland China seeking to expand their businesses in Hong Kong and overseas. As a key driver of growth, BEA (China) will further strengthen cross-border businesses between Mainland China, Hong Kong and overseas to capture opportunities arising from increasing business flows to and from Mainland China. Leveraging the Group’s international banking experience and long history of presence in Mainland China, BEA (China) aims to position itself as ‘the most localised foreign bank in Mainland China’.

Given the size of the Mainland China market and the already extensive physical presence of the domestic banks, the Group does not intend to compete with the domestic banks directly by opening an extensive branch network. Instead, the Group will accelerate the development of mobile platforms, such as mobile banking, WeChat banking and tablet banking, to extend its reach to customers. BEA (China) currently focuses on lending to high quality customers, such as state-owned enterprises, listed companies, customers who have long-standing business relationship with the Group and privately-owned enterprises with good credit standing in sectors such as public utilities, storage and logistics, pharmaceuticals and health, energy-saving and environmental protection, food safety as well as education and training. Treasury products are another promising area for growth. BEA (China) launched cross-currency swaps in 2016, and has made significant inroads into the onshore RMB options market.

In view of the internationalisation of RMB, the Group continues to further strengthen collaboration among its business units in Hong Kong, Mainland China and overseas. To capture opportunities arising from increasing business flows to and from Mainland China, BEA (China) provides integrated cross-border financial services for both trade and non-trade transactions, so as to meet clients’



growing needs in overseas acquisitions and business expansion. Furthermore, BEA (China) will increase participation in business arising from the three main national strategies (the “Belt and Road” initiative, the “Coordinated Development of Beijing-Tianjin-Hebei Area” and the Yangtze River Economic Belt”) and the free-trade zones.

BEA (China) is also placing greater emphasis on retail banking as a source of higher yields. BEA (China) plans to target high net-worth customers with tailored wealth management solutions. It will further strengthen cross-selling synergies between corporate and personal banking in Mainland China.

BEA (China) is also transforming its growth path by deepening co-operation with strategic partners in areas such as consumer finance and internet finance. Partnerships are an ideal way for BEA (China) to offset risk and leverage its operation expertise as it seeks opportunities in the new economy.

BEA (China) intends to optimise its branch network, improve its outlet productivity, carry out a cost-effective branch network and readjust the layout of its sub-branches according to business needs. By streamlining its operations through digitalisation and process enhancement, BEA (China) is well-positioned to capture more opportunities with similar resource bases.

In addition, the Group continues to expand its business in other overseas markets. For example, on 14 March 2017, BEA acquired 21% of the issued share capital of PRASAC Microfinance Institution Limited (“PRASAC”). PRASAC is a Cambodia-incorporated financial institution focused on providing sustainable access to financial services for rural communities and micro-enterprises in Cambodia. The Group believes that the acquisition provides a platform for the Group to capitalise on the opportunities that may arise from the potential growth in the financial sector in Cambodia as well as the projected growth in the broader general economy of Cambodia. See “*Recent Developments — Acquisition of Minority Equity Interest in PRASAC*” for further information.

#### **Diversification of non-interest income**

The Group implements its strategy in Hong Kong by continuing to broaden its product range, upgrading product features and exploring new market opportunities. The Group’s wealth management and private banking business will continue to be the focus of the Group’s core business development in the near future. The Group will also continue to develop the insurance business of Blue Cross and BEA Life, and intensify cross-selling opportunities to its existing customer base. In addition, the Group will drive and implement ongoing improvements on customer platforms, such as the Cyberbanking and BEA apps, to further enhance service quality and offer communication for new customers that are less readily accessible through traditional physical channels.

#### **Enhancement of profitability via active asset and liability management**

The Group intends to continue to optimise its asset mix through active asset and liability management and allocation in order to enhance its profitability and net worth.

#### **Transformation of its branch network**

Through repositioning and rationalising its branch network and re-distributing resources, the Group seeks to transform its Hong Kong branches into deposit taking centres and sales centres to provide banking products and services to its customers and in particular, to target high net worth customers. The Group will endeavour to enhance its appeal to capture affluent individuals. As at 4 May 2017, BEA’s network covered 78 branches, 55 SupremeGold Centres and ten i-Financial Centres in Hong Kong, offering a comprehensive platform for the Group to provide priority services to high net worth customers. The Group also piloted its first “digital branch” in February 2014 to meet the needs of an increasingly tech-savvy consumer base. BEA will further enhance its “digital branch” model with the aim to do more with less, expanding the range of services it offers.

The Group intends to increase its investments in digital strategy to reduce the cost of banking operations, and continue to embrace technology in driving mobile transactions with payment and lifestyle features. The Group will also continue to implement a straight-through, paperless branch operation model to enhance efficiency and service delivery, and upgrade its branch services with new technologies and processes to achieve its goal of becoming the primary service provider for its clients.

### **Organic growth and partnerships**

The Group maintains a close focus on creating value for customers and investors, providing high quality financial services and seeking investment opportunities that generate favourable returns. The Group aims to grow organically, by providing one-stop financial services to customers, and through partnerships, by establishing partnerships to generate new business across the Group. BEA will continue to capture new business opportunities and enhance service quality by tapping into the strengths and expertise of its shareholders and strategic partners. As at the date of this First Supplementary Offering Circular, the Group has not identified any specific targets for M&A.

### **Focus on enhancing operational efficiency**

The Group aims to further enhance efficiency and market competitiveness. The Group will continue to maintain strict control over costs throughout the Group and maintain cost discipline while investing in areas that offer good growth potential. The Group will also continue to enforce and explore technological innovation to streamline the selling, servicing and operation processes. A selection of banking products will be sold with the transaction processed via a wide range of e-channels. The Group will focus on growth across its operations and implement strategies to optimise its asset and portfolio mix, as well as remaining vigilant in managing its risks and striving to enhance efficiency and productivity. In addition, the Group will allocate more resources to proactively manage its credit risk control and protect asset quality.

## **BUSINESS OVERVIEW**

The Group's core businesses include deposits and home mortgage lending in Hong Kong. As at 31 December 2014, 2015 and 2016, approximately 7.7%, 9.5% and 9.2%, respectively, of the Group's total advances to customers constituted advances to individuals for the purchase of residential property (including but not limited to advances under GHOS, PSPS and TPS), and approximately 12.7%, 12.4% and 13.2%, respectively, comprised advances for property development and property investment in Hong Kong. BEA has long been known for the comprehensive range of corporate banking, personal banking, financial services and insurance services that it provides to its diverse customer base. BEA's products and services include syndicated loans, trade finance, deposit-taking, foreign currency savings, remittances, mortgage loans, consumer loans, credit cards, Cyberbanking, retail investment and wealth management services, private banking, Renminbi services, foreign exchange margin trading, brokerage services, MPF services and general and life insurance.

As at 4 May 2017, BEA had 78 branches, 55 SupremeGold Centres and ten i-Financial Centres in Hong Kong. BEA is a founding member of JETCO, which provided over 3,000 ATMs throughout Hong Kong, Macau and major cities in Mainland China as at 4 May 2017. BEA is also one of the founding members of EPSCO, which currently processes debit card transactions at more than 30,000 acceptance locations in Hong Kong, Macau and Shenzhen.

BEA introduced multi-function ATM terminals in early 2011 at strategic locations that allow customers to withdraw cash, deposit cash and cheques with instant credit to accounts and update saving account passbook. In August 2011, BEA introduced chip-based ATM technology to enhance customer protection against ATM fraud. BEA was one of the first banks in Hong Kong to issue an ATM chip card and introduce chip-enabled ATM terminals.

As at 4 May 2017, BEA had 33 branches and 87 sub-branches in Mainland China, Taiwan and Macau. In addition, as at 4 May 2017, BEA had one subsidiary, Shaanxi Fuping BEA Rural Bank Corporation (“**BEA Rural Bank**”) in Mainland China. As at 4 May 2017, headquartered in Shanghai, BEA (China) operated 30 branches and 84 sub-branches in Mainland China.

BEA (China) provides comprehensive RMB and foreign currency banking services to all customers. Services include but are not limited to personal banking and wealth management, loans and advances, debit cards and credit cards, cyberbanking and cash management, private banking, investment and derivative products, agency services for life and general insurance, remittance and settlement, RMB cross-border business, trade finance facilities, supply chain financing, standby letters of credit, bank guarantees and distribution of local mutual funds. As at 31 December 2014, 2015 and 2016, the assets of the Group’s operations in Mainland China, Taiwan and Macau collectively accounted for approximately 45.4%, 39.5% and 37.3% of the Group’s total assets, respectively. For the years ended 31 December 2015 and 2016, the profit/loss before taxation from continuing operations of the Group’s operations in Mainland China, Taiwan and Macau collectively accounted for approximately 11.8% and (2.1)% of the Group’s consolidated profit before taxation from continuing operations, respectively. For the year ended 31 December 2014, the profit before taxation of the Group’s operations in Mainland China, Taiwan and Macau collectively accounted for approximately 32.5% of the Group’s consolidated profit before taxation.

For the year ended 31 December 2014, the Group’s operating income and profit before taxation by business segment were as follows:

	<u>Operating income/(expense)</u>
	<u>Year ended 31 December</u>
	<u>2014 Restated<sup>(1)(2)</sup></u>
	<u>(in HK\$ millions)</u>
Hong Kong Region	
Personal Banking <sup>(3)</sup> .....	3,325
Corporate Banking <sup>(4)</sup> .....	2,837
Treasury Markets <sup>(5)</sup> .....	105
Wealth Management <sup>(6)</sup> .....	625
Financial Institutions <sup>(7)</sup> .....	179
Others <sup>(8)</sup> .....	899
China Operations <sup>(9)</sup> .....	7,416
Overseas Operations <sup>(10)</sup> .....	1,274
Corporate Services <sup>(11)</sup> .....	1,147
Others <sup>(12)</sup> .....	770
Inter-segment elimination .....	(345)
<b>Total</b> .....	<u><u>18,232</u></u>

	<u>Profit/(Loss) before taxation</u>
	<u>Year ended 31 December</u>
	<u>2014 Restated<sup>(1)(2)</sup></u>
	<u>(in HK\$ millions)</u>
Hong Kong Region	
Personal Banking <sup>(3)</sup> .....	1,558
Corporate Banking <sup>(4)</sup> .....	2,589
Treasury Markets <sup>(5)</sup> .....	26
Wealth Management <sup>(6)</sup> .....	430
Financial Institutions <sup>(7)</sup> .....	166
Others <sup>(8)</sup> .....	259
China Operations <sup>(9)</sup> .....	2,513
Overseas Operations <sup>(10)</sup> .....	1,325
Corporate Services <sup>(11)</sup> .....	340
Others <sup>(12)</sup> .....	(782)
Inter-segment elimination .....	—
<b>Total</b> .....	<u><u>8,424</u></u>

*Notes:*

- (1) The 2014 figures have been restated to better reflect the nature of periodic payments and receipts arising from interest rate contracts, such payments and receipts arising from interest rate contracts which are qualifying hedging instruments for or individually managed in conjunction with interest bearing financial assets are first netted together and then combined with the interest income from the corresponding financial assets. Similarly, payments and receipts arising from interest rate contracts which are qualifying hedging instruments for or individually managed in conjunction with interest bearing financial liabilities are also netted together and then combined with the interest expense from the corresponding financial liabilities. Please see note 54 to the 2015 Financial Statements for further information.
- (2) The Group's operating income and profit before taxation by business segment for the year ended 31 December 2014 have not been re-presented to illustrate the effect of the disposal of Tricor Holdings Limited ("Tricor"). Please see notes 54 and 56 to the 2016 Annual Report and "Recent Developments — Disposal of Tricor" for further information.
- (3) Personal banking includes branch operations, personal internet banking, consumer finance, property loans and credit card business in Hong Kong.
- (4) Corporate banking includes corporate lending and loan syndication, asset based lending, commercial lending and securities lending in Hong Kong.
- (5) Treasury markets includes treasury operations and securities dealing in Hong Kong.
- (6) Wealth management includes private banking business and related assets in Hong Kong.
- (7) Financial institutions includes trade financing activities with correspondent banks in Hong Kong.
- (8) Other Hong Kong banking operations include insurance business, trust business, securities & futures broking, money lender activities and corporate financial advisory in Hong Kong.
- (9) China operations include the back office unit for China operations in Hong Kong, all branches, subsidiaries and associates operated in China, except those subsidiaries carrying out corporate services, data processing and other back office operations in China.
- (10) Overseas operations include the back office unit for overseas banking operations in Hong Kong, all branches, subsidiaries and associates operated in overseas, except those subsidiaries carrying out corporate services in overseas.
- (11) Corporate services include company secretarial services, share registration and business services, and offshore corporate and trust services.
- (12) Other businesses include property related business, supporting units of Hong Kong operations, investment properties, bank premises, the net results of other subsidiaries in Hong Kong except for those subsidiaries which are included in other Hong Kong banking operations.

For the years ended 31 December 2015 and 2016, the Group's operating income from continuing operations and profit before taxation from continuing operations by business segment were as follows:

	<b>Operating income/(expense)</b>	
	<b>from continuing operations</b>	
	<b>Year ended 31 December</b>	
	<b>2015</b>	
	<b>Restated<sup>(1)</sup></b>	<b>2016</b>
	<b>(in HK\$</b>	<b>(in HK\$</b>
	<b>millions)</b>	<b>millions)</b>
<b>Hong Kong Region</b>		
Personal Banking <sup>(2)</sup> .....	3,513	3,713
Corporate Banking <sup>(3)</sup> .....	2,977	2,448
Treasury Markets <sup>(4)</sup> .....	(435)	(153)
Wealth Management <sup>(5)</sup> .....	794	791
Financial Institutions <sup>(6)</sup> .....	69	34
Others <sup>(7)</sup> .....	1,049	893
China Operations <sup>(8)</sup> .....	6,029	4,939
Overseas Operations <sup>(9)</sup> .....	1,332	1,451
Corporate Services <sup>(10)</sup> .....	—	—
Others <sup>(11)</sup> .....	901	1,089
Inter-segment elimination .....	(362)	(355)
<b>Total</b> .....	<b>15,867</b>	<b>14,850</b>

	<b>Profit/(Loss) before taxation</b>	
	<b>from continuing operations</b>	
	<b>Year ended 31 December</b>	
	<b>2015</b>	
	<b>Restated<sup>(1)</sup></b>	<b>2016</b>
	<b>(in HK\$</b>	<b>(in HK\$</b>
	<b>millions)</b>	<b>millions)</b>
<b>Hong Kong Region</b>		
Personal Banking <sup>(2)</sup> .....	1,560	1,597
Corporate Banking <sup>(3)</sup> .....	2,652	1,961
Treasury Markets <sup>(4)</sup> .....	(497)	(218)
Wealth Management <sup>(5)</sup> .....	588	593
Financial Institutions <sup>(6)</sup> .....	56	22
Others <sup>(7)</sup> .....	361	344
China Operations <sup>(8)</sup> .....	734	(255)
Overseas Operations <sup>(9)</sup> .....	1,264	1,185
Corporate Services <sup>(10)</sup> .....	—	—
Others <sup>(11)</sup> .....	(331)	(637)
Inter-segment elimination .....	(2)	—
<b>Total</b> .....	<b>6,385</b>	<b>4,592</b>

Notes:

- (1) On 5 October 2016, BEA and other parties entered into an agreement for the sale of all of the issued shares in Tricor. Following the closing of the disposal on 31 March 2017, BEA no longer holds any equity interest in Tricor and Tricor ceased to be a subsidiary of BEA. See "Recent Developments — Disposal of Tricor" for further information. In accordance with HKFRS 5 — Non-current Assets Held for Sale and Discontinued Operations, the Group is required to report the operating results of Tricor and its subsidiaries for the year ended 31 December 2016 separately as discontinued

operations in the consolidated income statement with comparative information re-presented. Therefore, certain comparative figures for the year ended 31 December 2015 have been represented to conform to the presentation of the figures for the year ended 31 December 2016. Please see notes 54 and 56 to the 2016 Annual Report for further information.

- (2) Personal banking includes branch operations, personal internet banking, consumer finance, property loans and credit card business in Hong Kong.
- (3) Corporate banking includes corporate lending and loan syndication, asset based lending, commercial lending and securities lending in Hong Kong.
- (4) Treasury markets includes treasury operations and securities dealing in Hong Kong.
- (5) Wealth management includes private banking business and related assets in Hong Kong.
- (6) Financial institutions includes trade financing activities with correspondent banks in Hong Kong.
- (7) Other Hong Kong banking operations include insurance business, trust business, securities & futures broking, money lender activities and corporate financial advisory in Hong Kong.
- (8) China operations include the back office unit for China operations in Hong Kong, all branches, subsidiaries and associates operated in China, except those subsidiaries carrying out corporate services, data processing and other back office operations in China.
- (9) Overseas operations include the back office unit for overseas banking operations in Hong Kong, all branches, subsidiaries and associates operated in overseas, except those subsidiaries carrying out corporate services in overseas.
- (10) Corporate services include company secretarial services, share registration and business services, and offshore corporate and trust services.
- (11) Other businesses include property related business, supporting units of Hong Kong operations, investment properties, bank premises, the net results of other subsidiaries in Hong Kong except for those subsidiaries which are included in other Hong Kong banking operations.

For the year ended 31 December 2016, the Group achieved a profit attributable to owners of the parent of HK\$3,723 million, representing a decrease of HK\$1,799 million or approximately 32.6%, compared to the HK\$5,522 million earned for the year ended 31 December 2015. For the year ended 31 December 2016, the Group's net interest income from continuing operations amounted to HK\$11,098 million, representing a decrease of HK\$831 million or approximately 7.0%, compared to the HK\$11,929 million reported for the year ended 31 December 2015. The Group's impairment losses from continuing operations for the year ended 31 December 2016 amounted to HK\$3,463 million, representing an increase of HK\$1,415 million or approximately 69.1%, compared to the HK\$2,048 million reported for the year ended 31 December 2015. The Group's operating profit after impairment losses from continuing operations for the year ended 31 December 2016 was HK\$3,045 million, representing a decrease of HK\$1,870 million or approximately 38.0%, compared to the HK\$4,915 million reported for the year ended 31 December 2015.

For the year ended 31 December 2015, the Group achieved a profit attributable to owners of the parent of HK\$5,522 million. For the year ended 31 December 2015, the Group's net interest income from continuing operations amounted to HK\$11,929 million. The Group's impairment losses from continuing operations for the year ended 31 December 2015 amounted to HK\$2,048 million. The Group's operating profit after impairment losses from continuing operations for the year ended 31 December 2015 was HK\$4,915 million.

For the year ended 31 December 2014, the Group achieved a profit attributable to owners of the parent of HK\$6,661 million. For the year ended 31 December 2014, the Group's net interest income amounted to HK\$12,675 million. The Group's impairment losses for the year ended 31 December 2014 amounted to HK\$1,001 million. The Group's operating profit after impairment losses for the year ended 31 December 2014 was HK\$7,382 million.

For the year ended 31 December 2014, the Group's operating income and profit before taxation by geographical location were as follows:

	<b>Operating income</b>	
	<b>Year ended 31 December 2014<sup>(1)</sup></b>	
	<b>(in HK\$ millions)</b>	
Hong Kong .....	9,081	
PRC <sup>(2)</sup> .....	7,716	
Other Asian Countries .....	1,052	
Others .....	795	
Inter-segment elimination .....	(412)	
<b>Total</b> .....	<b>18,232</b>	

  

	<b>Profit/(Loss) before taxation</b>	
	<b>Year ended 31 December 2014<sup>(1)</sup></b>	
	<b>(in HK\$ millions)</b>	
Hong Kong .....	4,130	
PRC <sup>(2)</sup> .....	2,735	
Other Asian Countries .....	847	
Others .....	712	
Inter-segment elimination .....	—	
<b>Total</b> .....	<b>8,424</b>	

*Note:*

- (1) The Group's operating income and profit before taxation by geographical location for the year ended 31 December 2014 have not been re-presented to illustrate the effect of the disposal of Tricor.
- (2) This includes Mainland China, Taiwan and Macau but excludes Hong Kong.

For the years ended 31 December 2015 and 2016, the Group's operating income from continuing operations and profit before taxation from continuing operations by geographical location were as follows:

	<b>Operating income from</b>	
	<b>continuing operations</b>	
	<b>Year ended 31 December</b>	
	<b>2015</b>	
	<b>Restated<sup>(1)</sup></b>	<b>2016</b>
	<b>(in HK\$</b>	<b>(in HK\$</b>
	<b>millions)</b>	<b>millions)</b>
Hong Kong .....	8,562	8,542
PRC <sup>(2)</sup> .....	6,288	5,163
Other Asian Countries .....	548	482
Others .....	831	1,018
Inter-segment elimination .....	(362)	(355)
<b>Total</b> .....	<b>15,867</b>	<b>14,850</b>

	<b>Profit/(Loss) before taxation from continuing operations</b>	
	<b>Year ended 31 December</b>	
	<b>2015</b>	
	<b>Restated<sup>(1)</sup></b>	<b>2016</b>
	<b>(in HK\$ millions)</b>	<b>(in HK\$ millions)</b>
Hong Kong	4,305	3,438
PRC <sup>(2)</sup>	754	(95)
Other Asian Countries	628	501
Others	700	748
Inter-segment elimination	(2)	—
<b>Total</b>	<b>6,385</b>	<b>4,592</b>

*Note:*

(1) On 5 October 2016, BEA and other parties entered into an agreement for the sale of all the issued shares in Tricor. Following the closing of the disposal on 31 March 2017, BEA no longer holds any equity interest in Tricor and Tricor ceased to be a subsidiary of BEA. See “Recent Developments — Disposal of Tricor” for further information. In accordance with HKFRS 5 — Non-current Assets Held for Sale and Discontinued Operations, the Group is required to report the operating results of Tricor and its subsidiaries for the year ended 31 December 2016 separately as discontinued operations in the consolidated income statement with comparative information re-presented. Therefore, certain comparative figures for the year ended 31 December 2015 have been represented to conform to the presentation of the figures for the year ended 31 December 2016. Please see notes 54 and 56 to the 2016 Annual Report for further information.

(2) This includes Mainland China, Taiwan and Macau but excludes Hong Kong.

## HONG KONG

### Home Mortgages

As at 31 December 2014, 2015 and 2016, home mortgages (including but not limited to advances under GHOS, PSPS and TPS) in Hong Kong represented one of the most significant segments of the Group’s total advances to customers, accounting for HK\$34,110 million, HK\$41,855 million and HK\$41,738 million, respectively, or approximately 7.7%, 9.5% and 9.2%, respectively, of the Group’s total advances to customers. As at 31 December 2014, 2015 and 2016, advances under GHOS, PSPS and TPS accounted for HK\$1,058 million, HK\$1,050 million and HK\$988 million, respectively, or approximately 0.2%, 0.2% and 0.2%, respectively, of the Group’s total advances to customers.

The majority of home mortgages are extended to buyers of housing units in Hong Kong who intend to occupy the premises, which include advances guaranteed by the Hong Kong Government under GHOS, PSPS and TPS to assist lower income families in purchasing homes. Other home mortgages are extended to individuals purchasing residential units for investment purposes.

The Group intends to continue maintaining its market share in the mortgage business by diversifying and customising the mortgage loans offered to its customers and providing tailor-made services to its existing and potential customers.

All home mortgage advances are secured by a first legal charge on the property and, in certain circumstances, the Group may also require personal guarantees as additional security. The Group provides various different mortgage plans, including floating Prime-based rate and floating HIBOR-based rate mortgage plans which are repayable by instalments. For a discussion of the Group’s loan-to-value lending limits applicable to home mortgage advances, see “Selected Statistical and Other Information — Risk Management and Credit Policies”. For a discussion of the Group’s



lending rates applicable to home mortgage advances, see “*Selected Statistical and Other Information — Advance Portfolio — Advance Analysis*”. The Group maintains close relationships with most property developers in Hong Kong, which has enabled the Group to source a significant amount of home mortgage and commercial mortgage advance business.

### **Trade Finance and Commercial Mortgages**

Commercial mortgages comprise advances to individuals and small-to-medium-sized enterprises (“SMEs”) to purchase retail shops, office space, factories and residential properties, whereas trade finance comprises loans to companies to accommodate their working capital requirements through overdraft facilities, short-term advances, trust receipts, invoice financing loans, corporate tax loans, export credit, packing loans and factoring facilities. The Group also provides treasury products and other trade finance related services to its customers, including advice on export documentary credits to be received by the customer, shipping guarantees, issuance of all types of documentary credits, negotiation of bills under documentary credits and collection of bills.

All commercial mortgage advances are secured by a first legal charge over the property and, in some circumstances, by additional collateral such as time deposits, listed securities and other financial instruments that the Group deems acceptable. As at 31 December 2016, the average advance maturity was approximately 15 years for commercial mortgages. For a discussion of commercial mortgage advances, see “*Selected Statistical and Other Information — Advance Portfolio — Advance Analysis*”.

The customers of the Group’s trade finance services range from manufacturing companies to large trading companies and multinational corporations. The Group intends to continue to increase income contribution and market share from trade finance by providing its customers with more market-oriented products through its business managers. The trade finance sector in Hong Kong is well developed and, consequently, the Group is seeking to capitalise on its network in Mainland China to market its trade finance services to the increasing number of customers with operations in Mainland China. In 2013, the Group created a dedicated department to focus on the development of cross-border business, and on the regions and industries with the greatest potential nationwide. This further enhanced collaboration with BEA (China) and helped drive growth in the Group’s trade bills portfolio. As a result of these efforts, and underpinned by rising external trade and the cost benefit of financing in Hong Kong, BEA believes that the Group is in a position to take advantage of the demand from Chinese corporations.

Trade finance advances are made on either a fully or partially secured basis by way of a mortgage of property or cash collateral or on an unsecured basis. Factoring facilities are offered to exporters to provide financing through purchase of receivables as well as offering credit protection and receivables collection services. The receivables managed under factoring are assigned to the Group, and credit protection is supported by back-to-back credit insurance issued by accredited insurance agencies or covered by inter-factoring arrangements. The Group has guidelines in place for assessing mortgage credit, based on asset criteria (including, in the case of individual customers, price, appraised value of the property, location, current market conditions and liquidity of the property) and customer criteria (including, in the case of individual customers, occupation, age, income and debt servicing ability). Trade finance advances typically have a relatively short maturity. For example, advances used to finance imports often have a maturity of only 90 to 120 days.

As at 31 December 2016, trade finance and commercial mortgage advances amounted to HK\$30,834 million, representing an increase of approximately 7.4% as compared to the HK\$28,713 million reported as at 31 December 2015, and accounted for approximately 6.8% of the Group’s total advances to customers as at 31 December 2016. As at 31 December 2015, trade finance and commercial mortgage advances amounted to HK\$28,713 million, representing an increase of approximately 10.9% as compared to the HK\$25,886 million reported as at 31 December 2014, and accounted for approximately 6.5% of the Group’s total advances to customers as at 31 December 2015.

## **Consumer Finance**

Consumer advances include unsecured or secured advances to individuals for fulfilling different needs and purposes, and also include overdrafts. In addition, the Group also offers its consumers application facilities for personal advances through its Cyberbanking and ATM services.

The Group offers a series of lending programmes, targeting different customer segments and with varied product features including a personalised interest rate based on the relevant customer's credit standing and tax advance packages.

Apart from the mass market, the Group has strategically grown its subprime segment by offering high-yield products. As at 31 December 2016, total outstanding consumer advances amounted to HK\$6,136 million, representing an increase of approximately 71.1% as compared to the HK\$3,587 million reported as at 31 December 2015, which accounted for approximately 1.4% of the Group's total advances to customers as at 31 December 2016. As at 31 December 2015, total outstanding consumer advances amounted to HK\$3,587 million, representing an increase of approximately 25.9% as compared to the HK\$2,848 million reported as at 31 December 2014, which accounted for approximately 0.8% of the Group's total advances to customers as at 31 December 2015.

CGFC is a wholly-owned subsidiary of BEA which has engaged in the Hong Kong sub-prime loan business since late 2006. As at 31 March 2017, CGFC operated through 14 branches across Hong Kong. In addition to unsecured loans, CGFC also offers various secured loan products to diversify its asset portfolio. CGFC intends to capitalise on the potential of the Mainland China market by establishing a presence in major cities nationwide. It established a subsidiary, Chongqing Dongrong Business Consultancy Company Limited, in Chongqing in 2014. As at 31 December 2014, 2015 and 2016, the total portfolio balance of CGFC was HK\$672 million, HK\$703 million and HK\$570 million, respectively, representing approximately 0.2%, 0.2% and 0.1%, respectively, of the total advances to customers of the Group.

## **Credit Cards**

The credit card business offers unsecured credit lines to individuals for purchases with merchants as well as loans on cards. The Group offers an array of card types for different types of customers, with prestigious World MasterCard and Visa Signature Card targeting an affluent segment of customers, and Platinum, Titanium and Classic Cards targeting the general public.

The Group has continuously focused on the key areas of competitive mileage and online reward to acquire new customers in its credit card business. High ticket size spending categories such as travel, health and online purchases (especially at airline and online travel agencies) are also key areas which the Group continues to invest in, in order to solicit new customers.

As at 31 December 2016, credit card advances amounted to HK\$4,540 million, which accounted for approximately 1.0% of the Group's total advances to customers and represented a decrease of approximately 0.3% as compared to the HK\$4,552 million reported as at 31 December 2015. As at 31 December 2015, credit card advances amounted to HK\$4,552 million, which accounted for approximately 1.0% of the Group's total advances to customers and represented a decrease of approximately 10.4% as compared to the HK\$5,079 million reported as at 31 December 2014.

## **Insurance Products and Services**

Blue Cross, acquired by BEA in December 1999, is a wholly-owned subsidiary of BEA and a part of BEA's bancassurance services. With over 45 years of solid operational experience in the insurance industry, Blue Cross provides a comprehensive range of non-life products and services, including medical, travel, and general insurance, to cater for the needs of both individual and corporate customers. Blue Cross is one of the leading insurers in the medical and travel insurance industry.

To enhance the customer experience, a wide range of personal general insurance products relating to travel, household, domestic helpers, decoration and personal accident are available for instant enrolment through websites of Blue Cross and BEA.

Blue Cross has received a number of awards in recognition of its contributions in the spheres of insurance provision, product innovation and online usability. In 2016, Blue Cross was assigned a financial strength rating of A (Excellent) and an issuer credit rating of “a” by A.M. Best Company, a global full-service credit rating firm specialising in the financial services industry.

BEA Life commenced business in January 2008. BEA Life is a wholly-owned subsidiary of BEA and serves as BEA’s life insurance arm. It underwrites and distributes a wide range of life insurance products and services including whole life, endowment, annuity, and term plans. In addition, BEA Life offers critical illness, education, retirement and medical savings solutions with all-round coverage and benefits to meet the diverse needs of its customers.

Blue Cross and BEA Life distribute their products via a diversity of channels throughout the city including BEA’s branches, insurance agents, brokers, allied partners and corporate websites.

The total premium income of Blue Cross and BEA Life for the year ended 31 December 2016 was HK\$3,491 million, approximately a 15% increase as compared to the HK\$3,045 million reported for the year ended 31 December 2015. The non-life insurance premium income of Blue Cross for the year ended 31 December 2016 was HK\$1,290 million, approximately a 4% increase as compared to the HK\$1,242 million reported for the year ended 31 December 2015.

The total premium income of Blue Cross and BEA Life for the year ended 31 December 2015 was HK\$3,045 million, approximately an 11% increase as compared to the HK\$2,747 million reported for the year ended 31 December 2014. The non-life insurance premium income of Blue Cross for the year ended 31 December 2015 was HK\$1,242 million, approximately a 10% increase as compared to the HK\$1,130 million reported for the year ended 31 December 2014.

The life insurance premium income of BEA Life for the year ended 31 December 2016 as calculated by the New Business Index, an index defined as the total amount of all regular premium plus 10% of single premiums (life insurance policies which require one lump sum payment), was HK\$1,112 million, representing approximately a 34% increase as compared to the HK\$827 million reported for the year ended 31 December 2015.

The life insurance premium income of BEA Life for the year ended 31 December 2015 as calculated by the New Business Index was HK\$827 million, representing approximately a 16% increase as compared to the HK\$713 million reported for the year ended 31 December 2014.

### **MPF Services and Other Trustee Services**

In October 1999, Bank of East Asia (Trustees) Limited (“**BEAT**”), a wholly-owned subsidiary of BEA, was granted the status of an approved trustee under the MPF Schemes Ordinance. Through this subsidiary, the Group offers a full-range of MPF services, including trustee, scheme administration, investment management and custody services, to employers, employees and the self-employed persons. BEAT is one of two approved trustees under the MPF Schemes Ordinance licensed to offer both the Master Trust Schemes and the Industry Scheme in Hong Kong.

BEAT has committed to offer its scheme members a wide range of investment choices. As at 31 March 2017, BEA (MPF) Master Trust Scheme offered 16 constituent funds for investment including BEA (MPF) Growth Fund, BEA (MPF) Balanced Fund, BEA (MPF) Stable Fund, BEA (MPF) Global Equity Fund, BEA (MPF) European Equity Fund, BEA (MPF) North American Equity Fund, BEA (MPF) Asian Equity Fund, BEA (MPF) Greater China Equity Fund, BEA (MPF) Hong Kong Equity Fund, BEA (MPF) Japan Equity Fund, BEA China Tracker Fund, BEA Hong Kong Tracker Fund, BEA (MPF) Global Bond Fund, BEA (MPF) RMB & HKD Money Market Fund, BEA (MPF) Long Term

Guaranteed Fund and BEA (MPF) Conservative Fund. As at 31 March 2017, BEA (MPF) Value Scheme consisted of 10 constituent funds including BEA Growth Fund, BEA Balanced Fund, BEA Stable Fund, BEA Global Equity Fund, BEA Asian Equity Fund, BEA Greater China Equity Fund, BEA Greater China Tracker Fund, BEA Hong Kong Tracker Fund, BEA Global Bond Fund and BEA MPF Conservative Fund. As at 31 March 2017, BEA (MPF) Industry Scheme consisted of 10 constituent funds including BEA (Industry Scheme) Growth Fund, BEA (Industry Scheme) Balanced Fund, BEA (Industry Scheme) Stable Fund, BEA (Industry Scheme) Asian Equity Fund, BEA (Industry Scheme) Greater China Equity Fund, BEA (Industry Scheme) Hong Kong Equity Fund, BEA China Tracker Fund, BEA Hong Kong Tracker Fund, BEA (Industry Scheme) RMB & HKD Money Market Fund and BEA (Industry Scheme) MPF Conservative Fund.

All constituent funds under the BEA (MPF) Master Trust Scheme and BEA (MPF) Industry Scheme (except RMB & HKD Money Market Fund, China Tracker Fund, Hong Kong Tracker Fund, BEA (MPF) Long Term Guaranteed Fund and Conservative Fund) invest in two or more approved pooled investment funds based on the “fund-of funds” approach. This investment strategy seeks to diversify risks and aims at enabling BEAT to obtain competitive investment returns for its MPF customers by taking advantage of the strengths of different fund houses. To satisfy the different needs of the Group’s customers, a new Master Trust Scheme, BEA (MPF) Value Scheme, was launched on 25 October 2012. The investment strategy under this scheme involves a single investment manager approach which is different from our BEA (MPF) Master Trust Scheme which has a multi-investment managers approach. Most constituent funds are solely investing in approved pool investment fund(s) managed by our Investment Manager, BEA Union Investment Management Limited.

Since their launch, the Group’s Master Trust Schemes and Industry Scheme have recorded stable growth in both membership and assets. Offering a wide range of products and providing some of the strongest investment returns in the market, the Group has built a reputation as one of Hong Kong’s premier MPF providers.

In addition to MPF services, BEAT also offers a complete range of trustee services to both individual and corporate clients. BEAT acts as executor and trustee of wills, an administrator of estates, attorney administrator for overseas estates having assets in Hong Kong and as escrow agent for commercial transactions. BEAT also acts as trustee for family or other trusts and settlement, investment funds, unit trusts, charities, public funds and capital market issues. For the year ended 31 December 2016, BEAT’s revenue from its private trust business was HK\$20.88 million, representing an increase of approximately 11.24% compared to the HK\$18.77 million reported for the year ended 31 December 2015. The 2014 revenue was HK\$22.09 million.

### **Internet Banking Services**

Internet banking services provided by the Group include BEA’s Cyberbanking and Cybertrading services.

#### *Cyberbanking*

Launched in September 1999, BEA’s Cyberbanking allows customers to manage up to 12 separate bank accounts by accessing a single account on the internet, over fixed-line telephones and mobile phones. BEA’s Cyberbanking offers a variety of banking functions, including balance enquiry, estatement & eadvice, rate enquiry, change of address, funds transfer, remittance, placement and renewal of time deposit, bill payment, credit card transactions and redemption of bonus points for gifts, an online application for mortgages services, stock and gold trading, foreign exchange margin and option margin trading, unit trust subscription and redemption, linked deposits, electronic initial public offering and other investment products, purchase of TravelSafe insurance and MPF account enquiry and deposit. In order to provide more flexibility for scheme members to manage their MPF accounts effectively, the Group launched a new service, Cyberbanking (MPF), in February 2008. Cyberbanking (MPF) enables scheme members to access their BEA MPF accounts via the internet to

review their account balance, deposit and withdrawal history and current investments and obtain fund information. In 2013, the Group started offering electronic bill presentment and payment service to its Cyberbanking customers. In 2015, BEA provided electronic cheque (“**e-Cheque**”) service to all customers including e-Cheque issuance and presentment.

Since 2015, BEA’s Cyberbanking has allowed customers to withdraw cash via BEA ATM network without ATM Card namely “Cardless ATM Withdrawal”. The Group was the first bank in Hong Kong to provide this kind of new function. In addition, BEA’s Cyberbanking provides a highly secure and innovative person-to-person payment service “i-P2P” to customers. BEA customer could make instant money transfers, e.g. share expenses on dining and other purchases to friends who are BEA customers or even non-BEA users. Customers simply need to use a phone number, with no need to collect any personal bank account information from the recipient.

#### *Mobile Application*

To extend its reach into mobile banking market, the Group rolled out a number of innovative products and services, including applications for iPhone and Android users in August and November 2010 respectively. In addition to providing customers with convenient access to banking and financial services, the application offers useful features such as a BEA branch and ATM locator, stock trading, “one-touch” service hotlines and information on the latest BEA credit card, consumer and property loan offers. BEA introduced additional features to its mobile application in 2013, including stock watch and fast trade, application for travel insurance, gold trading, property loan application, MPF account enquiry and latest fund price enquiry.

In 2015, a next generation version of its BEA App was further enhanced, combining a new online shopping platform “Shop Smart”, an “i-P2P” function, and a range of other mobile banking features.

#### *Corporate Cyberbanking*

Launched in July 2001, Corporate Cyberbanking has been designed to help companies enhance their efficiency by centralising and streamlining their financial management. Through one highly secure, flexible, and easy to operate account, companies can effectively manage their cashflow, payroll, expenses, and much more via the internet. Subsequently, Corporate Cyberbanking launched mobile phone channel in January 2010 including account balance enquiry, today activity enquiry, account history enquiry and funds transfer to associated & pre-designated accounts. In 2013, an enhanced liquidity management service and an electronic bill presentment and payment service were launched. In 2015, BEA provided e-Cheque service to all customers including e-Cheque issuance and presentment.

As at 31 March 2017, the number of registered Cyberbanking users and Corporate Cyberbanking users were up approximately 6.8% and 7.1%, respectively, as compared with the respective number of users as at 31 March 2016.

#### *Cybertrading*

In June 1999, BEA’s Cybertrading service was launched by BEA’s wholly-owned subsidiary, East Asia Securities. It was the first internet-based brokerage service offered by a bank in Hong Kong. The service allows customers to trade securities via the internet, mobile phone and automated phone. In November 2000, East Asia Securities began to use its Broker Supplied System under AMS/3, which allowed its dealing operations to run under a fully automated straight-through processing environment. In 2010, East Asia Securities launched various promotional campaigns for its securities trading services, intended to gain new securities clients and increase its volume of transactions in anticipation of a potential recovery of the financial markets. As at 31 December 2016, more than 62% of East Asia Securities clients had subscribed to Cybertrading.

Futures Cybertrading Services was launched by BEA's wholly-owned subsidiary, East Asia Futures Limited (“**East Asia Futures**”) in August 2004. The Futures Cybertrading Services provides clients with access to the futures market, which in turn allows them to leverage their investment exposure, take advantage of price volatility in the market and hedge against existing positions, as well as exploit spread trading or arbitrage opportunities.

East Asia Futures recorded an approximately 22.5% decrease in net fees and commission income for the year ended 31 December 2016 as compared with the corresponding period in 2015. Its net fees and commission income declined by approximately 1.7% for the year ended 31 December 2015 as compared with the corresponding period in 2014. As at 31 March 2017, approximately 87.3% of East Asia Futures' total number of transactions were traded via the Cybertrading platform; whereas for East Asia Securities, the volume of transactions executed via the Cybertrading platform, expressed as a percentage of total turnover, reached 73%, 74% and 69% of the number of trades, respectively, and 45%, 50% and 53% of the gross transaction value, respectively, for the years ended 31 December 2014, 2015 and 2016. BEA believes that the sustainable high volume of online trading recorded by East Asia Securities and East Asia Futures suggests that online trading is becoming increasingly popular with retail investors.

### **Bilateral Advances and Syndicated Advances**

The Group's corporate lending activities include meeting general corporate funding requirements, financing property development, property investment and M&A as well as infrastructure projects. The majority of borrowers are medium to large-sized Hong Kong companies as well as state-owned and private enterprises in Mainland China, which typically use the funds for general working capital, project development and investments in Hong Kong and Mainland China.

The Group acts as arranger or participating bank in the Hong Kong syndicated lending market. The majority of the Group's syndicated advances are to local companies engaging in property development and investment, local conglomerates and large private or state-owned enterprises in Mainland China. The Group also acts as a co-arranger in club deal facilities.

Since the commencement of 2017, the Hong Kong corporate loan market has remained competitive despite the stable funding requirement of property developers to finance their land acquisition and the refinancing needs of corporate clients. Given the abundant liquidity among banks in Hong Kong and the increasing funding cost concern, the Group's overall margin for corporate loans remains under pressure. However, given the close-out of bond issuance window by the PRC government in the second half of 2016 and the tightening measures recently imposed by the PRC government on capital outflow, corporate clients in Mainland China have increased their exposure to the Hong Kong loan market for offshore borrowings. In response to the slow recovery of the Chinese economy, banks have also focused on striking a balance between loan growth and credit quality.

The majority of the project financing in which the Group participates is extended on a recourse basis and is secured by the underlying project. Typically, the average maturity of BEA's corporate advances is between one and five years and that for construction loans is extended to completion of the construction project. Loan-to-value ratios are determined on a case-by-case basis. For project financing, the advance is secured by a first legal charge over the underlying property and a charge over all receivables derived from the property. The Group has been targeting medium-sized to large-sized borrowers as the margins on advances to these borrowers are generally more attractive than margins on unsecured syndicated advances to large corporate borrowers.

As at 31 December 2016, bilateral and syndicated advances outstanding totalled HK\$73,949 million, representing approximately a 6.8% increase compared to the HK\$69,210 million reported as at 31 December 2015, and accounted for approximately 16.3% of the Group's total advances to customers as at 31 December 2016. As at 31 December 2015, bilateral and syndicated advances outstanding totalled HK\$69,210 million, representing approximately a 1.4% decrease compared to the HK\$70,199

million reported as at 31 December 2014, and accounted for approximately 15.7% of the Group's total advances to customers as at 31 December 2015. As at 31 December 2014, bilateral and syndicated advances outstanding accounted for approximately 15.8% of the Group's total advances to customers as at 31 December 2014.

## **Wealth Management**

BEA's Wealth Management Division comprises Private Banking Department, Investment Products and Advisory Department and Trusts and Fiduciary Services Department. By offering a wide range of products and services, the Wealth Management Division caters to clients who are searching for asset allocation, wealth preservation, enhanced returns, better risk diversification and other tailor made investment solutions.

Services and products offered by the Wealth Management Division include investment services, structured and treasury products, mutual funds, medical and life insurance including premium financing, succession and estate planning services, services relating to the various immigration schemes of Hong Kong and other countries, asset custodian services, trusts and general banking services such as time deposits and loans. The division provides private banking services to the high net worth segment, and is also responsible for providing investment products support to the Personal Banking Division and also BEA (China)'s personal banking customers through the Investment Products and Advisory Department. The division is also responsible for BEA's private trust business so that customers can have all the wealth generation and protection needs serviced on the same platform.

BEA's private banking service ("**BEA Private Banking**") has now been in operation for approximately twelve years and has achieved a critical mass of over 2700 clients and business acquisition, and it continues to expand its client base. BEA Private Banking places particular emphasis in the Greater China region, capitalising on the Group's major network established in Mainland China. BEA believes that Hong Kong continues to be most important bridge as well as being the investment destination of choice for wealthy Mainland Chinese. As at 31 December 2016, Mainland Chinese customers accounted for 31.25% of BEA's private banking client base in terms of assets under management, and 43.58% in terms of revenue contribution. BEA believes that such proportion will continue to increase given the strong and leading position of the Group's business and know-how in Mainland China. The Group will continue to explore new avenues to leverage its extensive network in Mainland China to drive business, and add value to customers of the Group.

As at 31 December 2016, the assets under management of BEA Private Banking amounted to HK\$59.96 billion. The net profit of the department for the years ended 31 December 2014, 2015 and 2016 amounted to HK\$400.6 million, HK\$541.8 million and HK\$551.3 million, respectively.

BEA Private Banking continues to focus on the diversification of investments. In recent years, customers were generally interested in bonds, outright stocks and simple structured products, as well as wealth protection instruments such as trusts and insurance. BEA Private Banking also increased clients' investments in mutual funds, which are well accepted by clients to achieve better diversification. Insurance commissions have also significantly increased recently as clients seek protection as well as investment returns through insurance products.

Regulatory changes also affected the industry's landscape, with additional requirements ranging from investment selling process and risk monitoring measures, to suitability and concentration, and to due diligence for customers. Since 2009, the Group has enhanced its processes and procedures to follow the regulations and requirements that have been introduced. Since 2015, the Group has dedicated additional resources and taken various initiatives to digitalise and streamline work processes, with the aim of better risk control as well as enhancing customer experience. BEA Private Banking launched its own i-Portfolio service, which enables relationship managers to utilise smart tablets to review clients' portfolio information and make recommendations at any location.

BEA's Investment Products and Advisory Department continues to provide service in product provision and analysis to clients. BEA's Trust and Fiduciary Services Department enhances high net worth clients' family inheritance and planning to complete the wealth management and preservation objectives. Private Banking Department, Investment Products and Advisory Department and Trusts and Fiduciary Services Department together form the major platform to service high net worth customers for BEA.

### **Stock Broking**

In addition to the range of traditional banking products and services offered by the Group to its customers, the Group also provides equity and futures stock broking. Stock broking activities and dealings in Hang Seng Index futures, options and other derivative products are conducted through BEA and its wholly-owned subsidiaries, East Asia Securities and East Asia Futures, on an agency basis for the execution of customers' orders.

### **MAINLAND CHINA**

BEA first established its presence in Mainland China when it set up its Shanghai branch in 1920. In 1979, BEA established the first Sino-foreign joint venture in Mainland China and pioneered the provision of direct credit card settlement services in Mainland China. In 1988, it became the first foreign bank to provide foreign currency mortgages for foreign individuals (including residents of Hong Kong, Taiwan and Macau). In 1995, BEA was awarded the "Best Foreign Bank in China" by Euromoney magazine. In 2002, BEA was the first foreign bank authorised to conduct internet banking business in Mainland China and became one of the first foreign banks to obtain a licence to offer full foreign currency services at all its branches in Mainland China. In 2005, BEA was among the first batch of foreign banks that received approval to provide agency services for life insurance products in Mainland China. In 2006, BEA was one of the first foreign banks in China granted a Qualified Domestic Institutional Investor ("QDII") status by CBRC and was the first foreign bank in Mainland China to obtain a foreign exchange quota to conduct QDII business.

In 2007, BEA was one of the first foreign banks to establish a locally-incorporated bank in Mainland China and to conduct RMB business with local residents.

In 2008, BEA (China) was the first foreign bank to launch RMB debit cards and RMB credit cards in Mainland China.

In 2009, BEA (China) was the first locally-incorporated foreign bank in Mainland China to issue RMB bonds to retail investors in Hong Kong and was granted the status of domestic settlement bank and domestic agent bank for cross-border RMB trade settlement services.

In March and November 2011, BEA (China) completed the issue of its first and second batches of RMB financial bonds with the issue sizes of RMB2 billion and RMB3 billion, respectively, in China's interbank bond market.

In May 2012, BEA (China) completed the issuance of RMB senior unsecured bonds in an aggregate principal amount of RMB1 billion in Hong Kong.

In June 2013, BEA (China) was among the first batch of foreign banks to be granted a local mutual fund distribution licence in Mainland China. In August 2013, BEA was approved as a RMB Qualified Foreign Institutional Investor by the China Securities Regulatory Commission.

In February 2014, BEA (China)'s registered capital increased from RMB8 billion to RMB10 billion after BEA injected an additional capital of RMB2 billion into BEA (China). In addition, BEA (China) became the first foreign bank approved by PBOC to be a reserve bank for payment institutions.



In April 2014, BEA (China) signed a Co-operation Agreement on Cross-border Electronic RMB Payment Business with Shanghai Shengpay e-payment Service Company Limited. With the signing of this agreement, BEA (China) became the first foreign bank to provide cross-border electronic RMB payment service in the China (Shanghai) Pilot Free Trade Zone.

In June 2014, BEA (China) was one of the first foreign banks being approved by the regulators to be a member under China's Market Interest Rate Pricing Self-Discipline Mechanism. BEA (China) subsequently obtained approval for issuing interbank Negotiable Certificates of Deposit (“NCDs”) in an aggregate amount of RMB3 billion for the year 2014, and in August 2014 BEA (China) successfully issued its first interbank NCDs in the amount of RMB500 million.

In April 2015, BEA (China) entered into a strategic co-operation agreement (the “**Strategic Agreement**”) with WeBank Co., Ltd. (“**WeBank**”)<sup>1</sup>, a privately owned bank in Qianhai, Shenzhen. In accordance with the Strategic Agreement, BEA (China) and WeBank agreed to fully explore their respective competitive advantages for mutually beneficial business development. The business under co-operation includes but is not limited to customer referrals, credit card business, micro and personal loans, wealth management business, interbank lending and internet finance business. The Strategic Agreement sets out the framework for future co-operation, and the parties will separately agree and enter into contract(s) on their subsequent business co-operation, if any. Furthermore, the launch of the businesses mentioned above is subject to all the necessary regulatory approvals being obtained.

In December 2015, BEA entered into an agreement with Shenzhen Qianhai Financial Holdings Co., Ltd on the establishment of a fully-licensed joint venture securities company in Qianhai. In addition, BEA made an additional capital injection of RMB1 billion to BEA (China). This helped further strengthen BEA (China)'s ability to mitigate risk and sustain business growth. With the completion of the injection, BEA (China)'s registered capital increased from RMB10.16 billion to RMB11.16 billion.

In June 2016, BEA further injected an additional capital of RMB1 billion to BEA (China). BEA (China)'s registered capital increased from RMB11.16 billion to RMB12.16 billion.

As at 4 May 2017, BEA's wholly-owned subsidiary, BEA (China), headquartered in Shanghai, operated 30 branches in Shanghai, Beijing, Tianjin, Harbin, Dalian, Shenyang, Qingdao, Shijiazhuang, Zhengzhou, Urumqi, Hangzhou, Nanjing, Suzhou, Chengdu, Chongqing, Wuhan, Hefei, Xi'an, Shenzhen, Guangzhou, Zhuhai, Xiamen, Changsha, Kunming, Ningbo, Jinan, Wuxi, Fuzhou, Nanning and Nanchang as well as 84 sub-branches (including 16 cross-location sub-branches in Guangdong province established under the liberalisation measures of Supplement VI to the CEPA). In addition to the BEA (China) network, BEA operated a rural bank in Fuping County, Weinan City in Shaanxi province as at 4 May 2017. As at 4 May 2017, BEA operated two outlets in Taiwan (including a Taiwan Offshore Banking Branch in Taipei) to provide corporate banking services. The Taiwan Offshore Banking Branch provides a wide range of foreign currency services, including RMB financing and deposit, to offshore clients.

In order to expand its presence in the Mainland China market, the Group has been expanding the range of products and services it provides in Mainland China and will seek to capitalise on the opportunities arising from the liberalisation of the banking sector and from the CEPA between Hong Kong and Mainland China. BEA (China)'s strategy is to increase the growth of RMB deposits in order to maintain stability in its source of funds and to minimise costs associated with interbank lending. However, there are many factors affecting the growth of deposits such as economic and political

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<sup>1</sup> Established in 2014, WeBank is one of the first private commercial banks in the PRC and also the first officially launched online bank in the PRC.

conditions, the availability of alternative investment choices (including but not limited to securities issued by governmental or corporate entities, unit trusts and mutual funds, investment-linked assurance schemes and structured investment products) and retail customers' changing perceptions towards savings.

BEA (China) aims at optimising the allocation and utilisation of its resources to better develop its retail banking in areas with business potential by strategically repositioning some of the business outlets. Selected existing outlets provide both corporate and retail banking services, while the rest of the existing outlets and newly established outlets focus on corporate banking services supported by basic retail banking services.

For the year ended 31 December 2014, the profit before taxation of the Group's operations in Mainland China, Taiwan and Macau collectively accounted for approximately 32.5% of the Group's total profit before taxation, and the assets of the Group's operations in Mainland China, Taiwan and Macau collectively accounted for approximately 45.4% of the Group's total assets as at 31 December 2014. For the years ended 31 December 2015 and 2016, the profit before taxation from continuing operations of the Group's operations in Mainland China, Taiwan and Macau collectively accounted for approximately 11.8% and (2.1)% of the Group's total profit before taxation from continuing operations, respectively, and the assets of the Group's operations in Mainland China, Taiwan and Macau collectively accounted for approximately 39.5% and 37.3% of the Group's total assets as at 31 December 2015 and 2016, respectively.

The main source of income for the Group's operations in Mainland China, Taiwan and Macau is interest income generated from loans business. As part of the Group's expansion plan, the Group aims to strengthen its marketing efforts in other business areas (including trade finance, cross border business, personal banking, wealth management, treasury and cash management) in order to increase its fee income.

As at 31 December 2014, 2015 and 2016, BEA (China)'s RMB-denominated lending amounted to HK\$134,351 million, HK\$131,155 million and HK\$126,913 million, respectively, accounting for approximately 90.1%, 87.4% and 91.0% of the total customer advances of BEA (China), respectively. Borrowers comprise companies registered to do business in Mainland China and individual customers including local residents. BEA (China) expects to further expand its RMB-denominated lending business with a prudent approach and has more appetite for loan growth in selected industries such as public utilities, storage and logistics, pharmaceuticals and health, energy-saving and environmental protection, food safety as well as and education and training.

## INTERNATIONAL

The Group's international operations were commenced to meet the requirements of its core customers as their interests expanded overseas from Hong Kong. The Group seeks to establish a presence in cities with large concentrations of overseas Chinese. The following table sets out BEA's branches and representative offices outside Hong Kong, the PRC, Macau and Taiwan as at 31 March 2017.

Country/Region	Location	Year Opened
Malaysia . . . . .	Branch in Labuan; Representative Office in Kuala Lumpur	1997 and 1997
Singapore . . . . .	Branch in Singapore	1952
United States . . . . .	Branches in New York and Los Angeles	1984 and 1991
United Kingdom . . . . .	Branches in London, Birmingham and Manchester	1990, 1997 and 2013
Taiwan . . . . .	Branches in Taipei	1997
Macau . . . . .	Branch and Sub-branches in Macau	2001, 2006, 2007 and 2008

BEA's operations in the United States recorded strong performance in 2016, mainly due to steady economic growth amid the low interest rate environment, which drove demand for commercial and industrial corporate syndication financing and property investment in prime New York and Los Angeles locations. In view of the uncertainties presented by the the United States' policies, BEA's New York and Los Angeles branches (hereinafter also referred to as the "US Branches") have adopted prudent loan underwriting standards focusing on targeting high quality corporate and syndicated loans as well as commercial real estate financing. The US Branches will continue to closely monitor market conditions and adjust their business strategies.

BEA's operations in the United Kingdom registered steady growth in loan assets and profitability in 2016, shaking off any adverse impact of the United Kingdom's 2016 referendum vote to leave the European Union ("**Brexit**"). Leveraging the post-Brexit depreciation of the pound sterling and the Bank of England's aggressive interest rate cut, overseas investors have remained keen to acquire quality assets in the United Kingdom, particularly prime London properties. Commercial and residential property lending continues to be the primary growth driver of BEA's operations in the United Kingdom. In an effort to diversify risk, the branches will strive to broaden their loan portfolio by seeking opportunities in corporate syndication and non-property lending.

BEA's Singapore branch recorded a decrease in its loan portfolio in 2016, mainly due to a decline in China's cross-border trade loans. Against the backdrop of an economic downturn, the branch stepped up its efforts to improve the credit quality of its loan portfolio by exiting from riskier sectors and industries. To diversify its asset mix and sustain net interest margin, the branch enlarged its portfolio of Singapore dollar-denominated corporate debt securities investments in 2016. In 2017, the branch will continue to focus on expanding its syndicated and bilateral corporate loan portfolio, especially among larger new-to-bank clients, and increase its efforts to generate fee income.

BEA's Labuan branch performed well and delivered strong profit growth despite the economic turmoil in Malaysia. In 2017, the branch will continue to provide regional syndicated and bilateral loans to local Malaysian companies while expanding its non-interest income proportion by extending more bank guarantees and stand-by letter of credit facilities to customers, assisting the latter to secure local currency loans.

While BEA's Taiwan branches registered loan growth for the year ended 31 December 2016, its net profit after tax dropped when comparing to the net profit after tax for 2015 because of a compression in net interest margin under keen competition in the local market. In 2017, the Taiwan branches will focus on acting as arranger and facility agent for syndicated loans to increase fee income and enhance the brand image of BEA in the Taiwan market.

The operating environment in Macau remained challenging with the slowdown in the gaming industry, stagnant economic growth and rising operating costs. As a result, BEA's Macau branch registered a year-on-year drop in loan and net profit in 2016. However, BEA's asset quality in Macau remains healthy, with prudent risk management in place. Looking ahead, in addition to further developing corporate banking services, BEA's Macau branch will step up its effort to boost retail banking business with an emphasis on investment and insurance products.

## **Group Structure**

BEA is the holding company and the principal operating company of the Group. In addition, BEA has a number of significant subsidiaries and associated companies through which the Group conducts various operations such as stock-broking, asset management and certain fee-based activities.

For the year ended and as at 31 December 2016, except for BEA (China), none of BEA's subsidiaries accounted for more than 10% of the consolidated net profit and loss of the Group or had a book value in excess of 10% of the Group's consolidated total assets.

As at 31 December 2016, the Group's principal subsidiaries were as follows:

Name of subsidiary of the Issuer	Place of incorporation and operation of the Group	Issued and paid-up capital	% held by		Nature of business
			The Issuer	The Group	
Ample Delight Limited	Hong Kong	HK\$450,000,000		100%	Investment holding
Bank of East Asia (Trustees) Limited	Hong Kong	HK\$150,000,000	100%		Trustee
BEA Blue Sky Real Estate Fund L.P.	Cayman Islands	NIL		50.5%	Acting as a limited partner to BEA/ AGRE China Real Estate Fund, L.P.
BEA Consortium GS Investors L.P.	BVI	NIL		100%	Acting as a limited partner of a limited partnership
BEA Life Limited	Hong Kong	HK\$500,000,000	100%		Life insurance
BEA Union Investment Management Limited	Hong Kong	HK\$374,580,000	51%		Asset management
Blue Care JV (BVI) Holdings Limited	BVI	HK\$20,000,000		80%	Investment holding
Blue Cross (Asia-Pacific) Insurance Limited	Hong Kong	HK\$625,000,000	100%		Insurance
Caribbean Corporate Services Ltd. (Note 4)	Barbados	BDS\$2,000		60.49%	Corporate secretarial and accounting services
Central Town Limited	Hong Kong	HK\$2	100%		Property investment
Century Able Limited	Hong Kong	HK\$929,752,849		100%	Investment holding
Chongqing Dongrong Business Consultancy Company Limited	PRC	HK\$6,300,000		100%	Business consultancy services
Chongqing Liangjiang New Area Credit Gain Finance Company Limited	PRC	US\$50,000,000	100%		Micro-finance loan
Citiview Capital Limited	BVI	US\$1	100%		Acting as the general partner and limited partner of a limited partnership
Corona Light Limited	BVI	HK\$929,752,849		100%	Investment holding
Credit Gain Finance Company Limited	Hong Kong	HK\$390,000,000	100%		Money lenders
Crystal Gleaming Limited	BVI	HK\$929,752,849	100%		Investment holding
East Asia Electronic Data Processing (Guangzhou) Limited (Note 1)	PRC	US\$3,000,000		100%	Servicing
East Asia Facility Management Limited	Hong Kong	HK\$10,000		100%	Facility management
East Asia Holding Company, Inc.	U.S.A.	US\$5	100%		Bank holding company
East Asia Indonesian Holdings Limited	Seychelles	US\$100,000		100%	Investment holding
East Asia International Trustees Limited	BVI	US\$1,301,000		100%	Trustee services
East Asia Property Agency Company Limited	Hong Kong	HK\$1,000,000	100%		Property agency
East Asia Property Holdings (Jersey) Limited	BVI	GBP 9	100%		Property holding
East Asia Secretaries (BVI) Limited	BVI	HK\$300,000,000		75.61%	Investment holding
East Asia Securities Company Limited	Hong Kong	HK\$25,000,000	100%		Securities broking
East Asia Strategic Holdings Limited	BVI	US\$50,000,000	100%		Investment holding
Innovate Holdings Limited (Note 2)	BVI	US\$1 (Ordinary) US\$318,345,000 (with a liquidation preference of US\$1,000 per share)	100%		Special purpose vehicle company specially set up for BEA's Hybrid Tier 1 issue
Powerhouse Worldwide Limited	BVI	US\$29,490,000		100%	Investment holding
Shaanxi Fuping BEA Rural Bank Corporation (Note 1) (Note 3)	PRC	RMB20,000,000	100%		Banking and other financial businesses
Shenzhen Credit Gain Finance Company Limited (Note 1)	PRC	RMB300,000,000	100%		Micro-finance loan
Skyray Holdings Limited	BVI	HK\$450,000,000	100%		Investment holding

Name of subsidiary of the Issuer	Place of incorporation and operation of the Group	Issued and paid-up capital	% held by		Nature of business
			The Issuer	The Group	
Speedfull Limited	BVI	HK\$450,000,000		100%	Investment holding
The Bank of East Asia (China) Limited (Note 1)	PRC	RMB12,160,000,000	100%		Banking and related financial services
Tricor (B) Sdn Bhd (Note 4)	Brunei Darussalam	BND2		75.61%	Corporate business and investor services
Tricor Consultancy (Beijing) Limited (Note 1) (Note 4)	PRC	US\$1,850,000		75.61%	Business consultancy in China
Tricor Europe (Holdings) Limited (Note 4)	Hong Kong	HK\$1		75.61%	Investment holding
Tricor Executive Resources Limited (Note 4)	Hong Kong	HK\$100		75.61%	Executive search and human resource solutions
Tricor Greater China Limited (Note 4)	Hong Kong	HK\$1		75.61%	Investment holding and provision of administrative and marketing support services to fellow subsidiaries
Tricor Holdings Limited (Note 4)	BVI	US\$7,001		75.61%	Investment holding
Tricor Holdings Pte. Ltd. (Note 4)	Singapore	S\$5,000,002		75.61%	Investment holding
Tricor Investor Services Limited (Note 4)	Hong Kong	HK\$10,000,000		75.61%	Investor services
Tricor Japan Holdings GK (Note 4)	Japan	JPY1,000,000		66.88%	Nominee company
Tricor Outsourcing (Thailand) Ltd. (Note 4)	Thailand	THB10,000,000		57.46%	Business outsourcing
Tricor Services (BVI) Limited (Note 4)	BVI	US\$250,000		75.61%	Registered agent and trustee services
Tricor Services (Macau) Limited (Note 4)	Macau	MOP25,000		75.61%	Business services
Tricor Services (Malaysia) Sdn. Bhd. (Note 4)	Malaysia	RM5,672,484		71.83%	Investment holding
Tricor Services Limited (Note 4)	Hong Kong	HK\$10,000,000		75.61%	Business, corporate and investor services
Tricor Tengis Limited (Note 4)	Hong Kong	HK\$20		75.61%	Business, corporate and investor services

*Notes:*

1. Represents a wholly foreign owned enterprise registered under the PRC laws.
2. The above subsidiaries have no non-controlling interests material to the Group except for Innovate Holdings Limited.
3. On 6 December 2016, BEA entered into an agreement to sell BEA Rural Bank to Shaanxi Dingbian Rural Commercial Bank Corporation for a total consideration of RMB24 million. See “Recent Developments — Disposal of BEA Rural Bank” for further information. BEA Rural Bank’s assets and liabilities as at 31 December 2016 were presented separately as assets held for sale and liabilities held for sale respectively in the 2016 Financial Statements.
4. On 5 October 2016, BEA and other parties entered into an agreement for the sale of all of the issued shares in Tricor Holdings Limited (“**Tricor**”). Following the closing of the disposal on 31 March 2017, BEA no longer holds any equity interest in Tricor and Tricor ceased to be a subsidiary of BEA. See “Recent Developments — Disposal of Tricor” for further information.
5. BVI denotes the British Virgin Islands.

## ORGANISATION

The Board of Directors of BEA is responsible for the overall management of the Group. To assist the Board of Directors in managing the Group, a number of committees have been established, including the Executive Committee, the Audit Committee, the Remuneration Committee, the Nomination Committee, the Risk Committee and the Sealing Committee. The Executive Committee is responsible for reviewing all major functions and critical issues as well as formulating various strategies and policies relating to the businesses and operations of the Group. The Audit Committee is responsible for reviewing corporate governance functions, financial controls, risk management and internal control systems, annual report and accounts, and half-year interim report. The Remuneration Committee is responsible for making recommendations to the Board of Directors regarding BEA's remuneration policy, and for the formulation and review of the remuneration packages of the Directors, Chief Executive, Senior Management and key personnel of the Group. The Nomination Committee is responsible for recommending to the Board of Directors on relevant matters relating to appointments, re-appointment, removal and succession planning of Directors, Chief Executive, Senior Management, Division Heads, Group Chief Compliance Officer, Group Chief Financial Officer, Group Chief Risk Officer and Group Chief Auditor of BEA, defining succession planning and diversity of the Board of Directors and performing evaluation of the Board performance and Directors' contribution to the effectiveness of the Board. The Risk Committee is responsible for dealing with risk management related issues, in particular strategic issues, of the Group, including risk appetite, risk management strategies, risk governance, risk management framework, risk management policies and risk profiles. Sealing Committee is responsible for directing the usage and custody of the BEA's common seal.

In addition to the Executive Committee, the Audit Committee, the Remuneration Committee, the Nomination Committee, the Risk Committee and the Sealing Committee, BEA has a number of other committees which assist management in the operation of BEA. These include the Risk Management Committee, which is responsible for assisting the Risk Committee in the daily management of issues related to all major risks (in particular strategic and new product and business risks) faced by the Group including risk appetites, risk profiles, regulatory updates and stress-testing; the Credit Committee, which is responsible for dealing with all credit risk-related issues of the Group; the Asset and Liability Management Committee ("ALCO"), which is responsible for dealing with all issues related to market, interest rate and liquidity risks of the Group; the Operational Risk Management Committee, which is responsible for dealing with all issues relating to operational, legal, reputation, compliance, technology and business continuity risks of the Group; the Investment Committee, which is responsible for reviewing and formulating investment strategies as well as making investment decisions in respect of fixed income instruments, equity and equity related investments for BEA and The Bank of East Asia, Limited Employees' Provident Fund; and the Crisis Management Committee, which is responsible for dealing with the Group's management of crisis scenarios which jeopardise or have the potential to jeopardise the Group in its reputation, liquidity/financial position and business continuity.

BEA has 16 divisions, each of which is responsible for a specific operational function. The divisions are the Personal Banking Division, the Corporate Banking Division, the Wealth Management Division, the Insurance & Retirement Benefits Division, the Treasury Markets Division, the China Division, the International Division, the Strategic Planning & Control Division, the Operations Support & Services Division, the Technology & Productivity Division, the Human Resources & Corporate Communications Division, the Risk Management Division and the Legal, Secretarial & Tax Division, Compliance Division, Internal Audit Division and Strategic Partnerships and Financial Institutions Division.

## **PROPERTIES**

As at 31 March 2017, BEA owned properties with aggregate floor areas of approximately 388,263 square feet, 467,939 square feet and 37,678 square feet on Hong Kong Island, in Kowloon and in the New Territories, respectively. Most of BEA's properties are used as banking offices, as branches or for storage, and the remainder are leased to third parties. In addition, as at 31 March 2017, BEA also leased properties with aggregate floor areas of approximately 50,662 square feet, 108,600 square feet and 68,487 square feet on Hong Kong Island, in Kowloon and in the New Territories, respectively. These leased properties are used as banking offices, as branches or for storage. As at 31 December 2016, the fair value for BEA's investment properties and bank premises amounted to HK\$4,467 million and HK\$18,660 million, respectively.

## **INTELLECTUAL PROPERTY**

The Group relies on domain name registrations to establish and protect its internet domain names. The Group has registered a number of internet domain names. The Group has also registered "The Bank of East Asia Limited cyber banking" as a trademark with the Hong Kong government.

## **INSURANCE**

The Group currently maintains insurance cover to mitigate its risk. Such insurance can broadly be categorised into property insurance to cover the loss of or damage to building structure and content, electronic equipment and motor vehicles; public liability insurance to cover legal liability as a result of physical bodily injury and/or property damage caused to third parties; bankers' blanket bonds insurance to cover the loss resulting from fraudulent acts by employees, loss of money on premises and in transit and forgery of bank instruments; professional indemnity insurance to indemnify the Group for loss arising out of claims for wrongful or negligent professional acts; and directors' and officers' liability insurance to cover the personal liability of BEA's directors and officers against any claims resulting from any wrongful act. There is a centralised independent function within the Group that handles the validity and adequacy of insurance cover.

## **COMPETITION**

The banking industry in Mainland China is highly competitive. The market has been dominated by the large state-owned commercial banks, which have a long operating history, well-established branch networks, strong customer bases and better brand recognition.

Although BEA is the largest independent local bank in Hong Kong in terms of assets, given increasing competition among the local banks in Hong Kong, the Group has placed greater focus on diversifying its revenue sources and increasing its fee-based income, particularly from its wealth management, private banking and retail investment businesses. In addition, the Group focuses on optimising its presence in Mainland China by consolidating and relocating certain sub-branches and ATMs of BEA (China). However, China's economic growth has slowed down, which adversely affected the loan growth and asset quality of BEA (China).

For a further discussion of the risks of competition faced by the Group in Hong Kong and China, see "*Investment Considerations — Considerations Relating to the Group — Competition*".

## LITIGATION

Neither BEA nor any of its subsidiaries is currently involved in any material litigation, arbitration or similar proceedings, and BEA is not aware of any such proceedings pending or threatened against it or any of its subsidiaries, which are or might be material in the context of Capital Securities to be issued under the Programme, save that on 28 February 2017, BEA was served with a statement of claim (“**Statement of Claim**”) filed by China Medical Technologies, Inc (in Liquidation) at the Court of First Instance of the High Court of HKSAR. Based on currently available information, its board of directors considers that the Statement of Claim will not have any material adverse impact on BEA’s normal business and operations.

## EMPLOYEES

As at 31 March 2017, the Group had a total of 10,124 employees as set forth in the following table:

	<u>No. of employees</u>
Hong Kong . . . . .	4,362
Greater China excluding Hong Kong . . . . .	5,376
Overseas . . . . .	<u>386</u>
<b>Total</b> . . . . .	<u><u>10,124</u></u>

Management believes that BEA maintains a good relationship with its employees and has not experienced any material employment disputes. Other than all local employees of BEA (China) and certain local employees at its Singapore branch, none of BEA’s employees are members of a trade union. BEA provides attractive remuneration and benefits packages to its employees including medical health care plans, group life insurance, various paid leave, staff housing loan with preferential interest rate, staff account with preferential deposit interest rate and retirement benefits under either the MPF Scheme or the MPF exempted ORSO Scheme. In addition, BEA operates share option schemes under which options to purchase ordinary shares of BEA have been granted to eligible employees and executive directors. As at 31 March 2017, approximately 31,698,000 shares, representing approximately 1.15% of BEA’s issued capital on a fully diluted basis, were issuable upon the exercise of options (including vested and unvested options) granted under BEA’s staff share option scheme adopted in 2011.

In addition to benefits packages, BEA continues to provide career advancement opportunities and a healthy, positive working environment to its employees. BEA offers a wide range of training courses to support its employees’ ongoing professional development.

## PROTECTION OF DEPOSITORS

BEA is a member of the Deposit Protection Scheme, which was launched in September 2006. Accordingly, all eligible depositors of BEA are automatically protected under the Deposit Protection Scheme. As part of its measures to maintain the liquidity of, and confidence in, the Hong Kong financial markets, the Hong Kong government introduced in 2006 a Deposit Protection Scheme to provide a level of protection to depositors with deposits held with authorised institutions in Hong Kong. An enhanced Deposit Protection Scheme with an increased protection limit of HK\$500,000 and expanded coverage including deposits pledged as security for banking services, came into effect on 1 January 2011.



## RECENT DEVELOPMENTS

### DISPOSAL OF TRICOR

On 5 October 2016, BEA, NWS Holdings Limited (“**NWS Holdings**”) and East Asia Secretaries (BVI) Limited (“**East Asia Secretaries**”) entered into a share purchase agreement (the “**Share Purchase Agreement**”) with Trivium Investment Limited (“**Trivium**”), a company which is wholly owned and controlled by Permira funds, for the sale of all the issued shares of Tricor Holdings Limited (“**Tricor**”) held by East Asia Secretaries to Trivium (the “**Disposal**”). The consideration for the Disposal is HK\$6,469.7 million payable by Trivium to East Asia Secretaries in cash upon closing of the Disposal. Closing of the Disposal is subject to regulatory clearances being obtained from the British Virgin Islands Financial Services Commission, the Autoriti Monetari Brunei Darussalam, the Cayman Islands Monetary Authority, the Securities Commission Malaysia and the United Kingdom Financial Conduct Authority.

All conditions precedent to the closing of the Disposal were satisfied and the closing took place on 31 March 2017. Following the closing of the Disposal, BEA no longer holds any equity interest in Tricor and Tricor ceased to be a subsidiary of BEA.

BEA shall book a profit in the amount of approximately HK\$3 billion in respect of the Disposal. The profit is calculated with reference to the new sale proceeds attributable to BEA after deducting relevant transaction costs and expenses, and the latest carrying amount of Tricor on the book of BEA.

### ACQUISITION OF MINORITY EQUITY INTEREST IN PRASAC

BEA acquired 21% of the issued share capital of PRASAC on 14 March 2017 for a consideration of approximately US\$78 million. As at 17 March 2017, BEA held 21% of the issued share capital of PRASAC, whereas 70% and 9% of the issued share capital of PRASAC were held by LOLC International Private Limited and P S Co., Ltd, respectively. PRASAC is a Cambodia-incorporated financial institution focused on providing sustainable access to financial services for rural communities and micro-enterprises in Cambodia.

### DISPOSAL OF BEA RURAL BANK

On 6 December 2016, BEA entered into an agreement to sell its wholly-owned subsidiary, BEA Rural Bank to Shaanxi Dingbian Rural Commercial Bank Corporation for a total consideration of RMB24 million. The completion of the sale transaction (“**Completion**”) is conditional upon obtaining the regulatory approval and the satisfaction of the conditions precedent set out in the relevant equity transfer agreement. BEA expects Completion to occur during the first half of 2017. BEA Rural Bank’s assets and liabilities as at 31 December 2016 were presented separately as assets held for sale and liabilities held for sale respectively in the 2016 Financial Statements.

## SELECTED STATISTICAL AND OTHER INFORMATION

*This section replaces the section headed “Selected Statistical and Other Information” on pages 77 to 95 of the Original Offering Circular in its entirety.*

The selected statistical and other information set forth below is derived from and should be read in conjunction with the 2015 Financial Statements and the 2016 Financial Statements. Such information relates only to the Group and has, except where otherwise indicated, been compiled as at and for each of the years ended 31 December 2014, 2015 and 2016, and should be read in conjunction with the information contained elsewhere in this Offering Circular, including “*Business of the Group*”.

Certain figures as at and for the year ended 31 December 2014 have been restated to better reflect the nature of periodic payments and receipts arising from interest rate contracts, such payments and receipts arising from interest rate contracts which are qualifying hedging instruments for or individually managed in conjunction with interest bearing financial assets are first netted together and then combined with the interest income from the corresponding financial assets. Similarly, payments and receipts arising from interest rate contracts which are qualifying hedging instruments for or individually managed in conjunction with interest bearing financial liabilities are also netted together and then combined with the interest expense from the corresponding financial liabilities. Please see note 54 to the 2015 Financial Statements for further information.

In accordance with HKFRS 5 — Non-current Assets Held for Sale and Discontinued Operations, as a result of the Group’s disposal of Tricor, the Group is required to report the operating results of Tricor and its subsidiaries for the year ended 31 December 2016 separately as discontinued operations in the consolidated income statement with comparative information re-presented. Certain comparative figures for the year ended 31 December 2015 have been represented to conform to the presentation of the figures for the year ended 31 December 2016. Please see notes 54 and 56 to the 2016 Annual Report and “*Recent Developments — Disposal of Tricor*” for further information. The Group’s operating income and profit before taxation for the year ended 31 December 2014 have not been re-presented to illustrate the effect of the disposal of Tricor.

### ADVANCE PORTFOLIO

#### Overview

As at 31 December 2014, 2015 and 2016, the Group’s total outstanding advances to customers were HK\$443,287 million, HK\$441,506 million and HK\$454,242 million, respectively, which represented approximately 55.7%, 56.5% and 59.3%, respectively, of its total assets.

The majority of the Group’s advances are in respect of home mortgages and advances for property investment and development (excluding advances under GHOS, PSPS and TPS), which together, as at 31 December 2014 2015 and 2016, represented approximately 20.1%, 21.7% and 22.2%, respectively, of the Group’s total advances to customers.

The table below sets forth a summary of the Group's gross advances by sector as at the dates indicated.

## The Group

	As at 31 December					
	2014	Percentage of total	2015	Percentage of total	2016	Percentage of total
(in HK\$ millions, except percentages)						
Loans for use in Hong Kong						
Industrial, commercial and financial						
- Property development . . . . .	17,177	3.9%	13,009	3.0%	21,934	4.8%
- Property investment . . . . .	38,906	8.8%	41,890	9.5%	38,224	8.4%
- Financial concerns . . . . .	15,562	3.5%	10,011	2.3%	10,296	2.3%
- Stockbrokers . . . . .	1,901	0.4%	2,894	0.7%	2,988	0.7%
- Wholesale and retail trade . . . . .	21,070	4.8%	18,250	4.1%	14,821	3.3%
- Manufacturing . . . . .	7,090	1.6%	4,494	1.0%	2,925	0.6%
- Transport and transport equipment . . . . .	6,835	1.5%	5,758	1.3%	5,633	1.2%
- Recreational activities . . . . .	138	—	155	—	171	—
- Information technology . . . . .	836	0.2%	1,251	0.3%	2,596	0.6%
- Others <sup>(1)</sup> . . . . .	19,113	4.3%	21,370	4.8%	18,720	4.1%
- Sub-total . . . . .	<u>128,628</u>	<u>29.0%</u>	<u>119,082</u>	<u>27.0%</u>	<u>118,308</u>	<u>26.0%</u>
Individuals						
- Loans for the purchase of flats in the GHOS, PSPS and TPS . . . . .	1,058	0.2%	1,050	0.2%	988	0.2%
- Loans for the purchase of other residential properties . . . . .	33,052	7.5%	40,805	9.3%	40,750	9.0%
- Credit card advances . . . . .	5,079	1.2%	4,552	1.0%	4,540	1.0%
- Others <sup>(2)</sup> . . . . .	19,181	4.3%	21,191	4.8%	27,301	6.0%
- Sub-total . . . . .	<u>58,370</u>	<u>13.2%</u>	<u>67,598</u>	<u>15.3%</u>	<u>73,579</u>	<u>16.2%</u>
Total loans for use in Hong Kong . . . . .						
Kong . . . . .	186,998	42.2%	186,680	42.3%	191,887	42.2%
Trade finance . . . . .	5,527	1.2%	5,998	1.3%	5,390	1.2%
Loans for use outside Hong Kong . . . . .						
Kong <sup>(3)</sup> . . . . .	<u>250,762</u>	<u>56.6%</u>	<u>248,828</u>	<u>56.4%</u>	<u>256,965</u>	<u>56.6%</u>
Total advances to customers . . . . .	<u>443,287</u>	<u>100.0%</u>	<u>441,506</u>	<u>100.0%</u>	<u>454,242</u>	<u>100.0%</u>

*Notes:*

- (1) "Others" includes the industry sectors of civil engineering works, electricity and gas, hotels, boarding houses and catering, non-stockbroking companies and individuals for the purchase of shares, professional and private individuals for other business purposes and all others not specified.
- (2) "Others" includes professional and private individuals for other private purposes.
- (3) This refers to loans to customers the proceeds of which are not used in Hong Kong.

## Geographical Concentration

The table below sets forth a summary of the Group's gross advances to customers by geographical location as at the dates indicated.<sup>(1)</sup>

	As at 31 December					
	2014	Percentage of total	2015	Percentage of total	2016	Percentage of total
	(in HK\$ millions, except percentages)					
Hong Kong . . . . .	186,000	41.9%	181,968	41.2%	194,181	42.8%
PRC <sup>(2)</sup> . . . . .	213,984	48.3%	212,621	48.2%	202,984	44.7%
Other Asian Countries <sup>(3)</sup> . . . . .	20,813	4.7%	19,376	4.4%	19,712	4.3%
Others <sup>(4)</sup> . . . . .	22,490	5.1%	27,541	6.2%	37,365	8.2%
<b>Total</b> . . . . .	<b>443,287</b>	<b>100.0%</b>	<b>441,506</b>	<b>100.0%</b>	<b>454,242</b>	<b>100.0%</b>

### Notes:

- (1) The above geographical analysis has been classified by the location of the counterparties, after taking into account any transfer of risk.
- (2) This includes Mainland China, Taiwan and Macau.
- (3) This includes all Asian countries other than Mainland China, Taiwan and Macau.
- (4) This includes North America, Western Europe and other countries.

## Customer Advance Concentration

The Banking Ordinance generally prohibits any bank incorporated in Hong Kong from maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its capital base. For a discussion of “financial exposure”, see “*Regulation and Supervision— Regulation and Supervision in Hong Kong — Principal Obligations of Licensed Banks — Financial Exposure to Any One Customer*”. As at 31 December 2016, the Group's exposure to its 20 largest borrowers (including groups of individuals and companies) amounted to approximately HK\$111,778 million, or approximately 24.6% of the Group's gross advances, with the largest representing HK\$12,591 million, or approximately 2.8% of the Group's gross advances. As at 31 December 2015, the Group's exposure to its 20 largest borrowers (including groups of individuals and companies) amounted to approximately HK\$99,606 million, or approximately 22.6% of the Group's gross advances, with the largest representing HK\$8,182 million, or approximately 1.9% of the Group's gross advances. As at 31 December 2014, the Group's exposure to its 20 largest borrowers (including groups of individuals and companies) amounted to approximately HK\$87,427 million, or approximately 19.7% of the Group's gross advances, with the largest representing HK\$8,008 million, or approximately 1.8% of the Group's gross advances.

## Advance Analysis

As a significant proportion of the Group's gross advances are made for the purchase of residential property, as at 31 December 2014, 2015 and 2016, approximately 20.4%, 21.7% and 21.1% of advances had a remaining maturity of more than five years, respectively.

The table below sets forth a summary of the Group's gross advances by remaining maturity as at the dates indicated.

	As at 31 December					
	2014	Percentage of total	2015	Percentage of total	2016	Percentage of total
	(in HK\$ millions, except percentages)					
Repayable on demand <sup>(1)</sup> . . . . .	6,777	1.5%	5,104	1.2%	5,156	1.1%
3 months or less . . . . .	97,196	21.9%	81,463	18.4%	75,452	16.6%
1 year or less but over 3 months . . . . .	93,131	21.0%	86,345	19.6%	93,146	20.5%
5 years or less but over 1 year . . . . .	154,184	34.8%	169,579	38.4%	178,930	39.4%
Over 5 years . . . . .	90,232	20.4%	95,765	21.7%	95,809	21.1%
Undated . . . . .	1,767	0.4%	3,250	0.7%	5,749	1.3%
Gross advances to customers . . . . .	<u>443,287</u>	<u>100.0%</u>	<u>441,506</u>	<u>100.0%</u>	<u>454,242</u>	<u>100.0%</u>

Note:

(1) Includes overdrafts.

As at 31 December 2014, 2015 and 2016, approximately 80.0%, 84.4% and 79.2% of advances made by the Group were at floating rates of interest, respectively. See “— *Asset and Liability Management*”. The current rate offered by the Group for home mortgage advances in Hong Kong generally ranges from 1.3% to 1.4% above the 1-month HIBOR. The interest rate for Hong Kong dollar consumer finance advances offered by the Group is typically calculated on the initial principal amounts of such advances and typically ranges from 0.11% to 1.35% per month flat for fixed rate products and from 5.75% (P+0.5%) to 8.75% (P+3.5%) per annum for prime based products. The interest rate for Hong Kong dollar trade finance advances made by the Group is typically a margin over the prime rate. The interest rate for project finance lending and syndicated lending is typically a margin over HIBOR. As at 31 December 2014, 2015 and 2016, approximately 40.1%, 40.8% and 40.5%, respectively, of advances made by the Group were denominated in Hong Kong dollars, approximately 20.0%, 19.0% and 19.6%, respectively, were denominated in U.S. dollars and approximately 32.6%, 32.5% and 31.9%, respectively, were denominated in RMB. Rates which are lower than the above rates may be offered by the Group under appropriate circumstances subject to internal approvals.

An important component of the Group's asset and liability policy is its management of interest rate risk, which is the relationship between market interest rates and the Group's interest rates on its interest-earning assets and interest-bearing liabilities. See “— *Asset and Liability Management*”.

As at 31 December 2014, the amounts, in Hong Kong dollars, and percentages represented by fixed and floating-rate advances denominated in Hong Kong dollars and foreign currencies, respectively, were as follows:

	Advances outstanding as at 31 December 2014					
	HK dollar advances		Foreign currency advances		Total	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
	(in HK\$ millions, except percentages)					
Fixed rate . . . . .	32,017	18.0%	56,776	21.4%	88,793	20.0%
Floating rate . . . . .	145,867	82.0%	208,627	78.6%	354,494	80.0%
<b>Total</b> . . . . .	<u>177,884</u>	<u>100.0%</u>	<u>265,403</u>	<u>100.0%</u>	<u>443,287</u>	<u>100.0%</u>

As at 31 December 2015, the amounts, in Hong Kong dollars, and percentages represented by fixed and floating-rate advances denominated in Hong Kong dollars and foreign currencies, respectively, were as follows:

Advances outstanding as at 31 December 2015						
	HK dollar advances		Foreign currency advances		Total	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
(in HK\$ millions, except percentages)						
Fixed rate . . . . .	24,864	13.8%	43,847	16.8%	68,711	15.6%
Floating rate . . . . .	155,336	86.2%	217,459	83.2%	372,795	84.4%
<b>Total</b> . . . . .	<u>180,200</u>	<u>100.0%</u>	<u>261,306</u>	<u>100.0%</u>	<u>441,506</u>	<u>100.0%</u>

As at 31 December 2016, the amounts, in Hong Kong dollars, and percentages represented by fixed and floating-rate advances denominated in Hong Kong dollars and foreign currencies, respectively, were as follows:

Advances outstanding as at 31 December 2016						
	HK dollar advances		Foreign currency advances		Total	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
(in HK\$ millions, except percentages)						
Fixed rate . . . . .	32,844	17.8%	61,762	22.9%	94,606	20.8%
Floating rate . . . . .	151,288	82.2%	208,348	77.1%	359,636	79.2%
<b>Total</b> . . . . .	<u>184,132</u>	<u>100.0%</u>	<u>270,110</u>	<u>100.0%</u>	<u>454,242</u>	<u>100.0%</u>

As at 31 December 2014, 2015 and 2016, at least 69% of the Group's total advances to customers were secured by collateral.

Home mortgages are secured by a first legal charge over the underlying property. Working capital advances for businesses are typically secured by fixed and floating charges over land, buildings, machinery, inventory and receivables. Term advances for specific projects or developments are typically secured against the underlying project's assets and its receivables, while additional guarantees are typically provided by the sponsors or shareholders. The Group also receives guarantees in relation to certain of its other advances to cover, in the case of trade finance, any shortfall in security or, in the case of consumer advances to younger or less financially secure customers, to provide security on what are normally unsecured advances.

All forms of security taken as collateral against credit facilities are monitored by the respective departments which extended the advances. In general, the collateral is periodically valued by an independent valuer to determine whether any additional collateral is required.

## RISK MANAGEMENT AND CREDIT POLICIES

The Group's lending policies have been formulated on the basis of its own experience, the Banking Ordinance, HKMA guidelines and policies issued by the Hong Kong Association of Banks and other statutory requirements (and, in the case of overseas branches and subsidiaries, the relevant local laws and regulations). BEA believes it has a history of, and reputation for, prudent lending practices. The majority of the Group's lending is on a secured basis, and the Group has established loan-to-value lending limits based on the appraised market value of the relevant collateral.

## Risk Management

The Group has established an effective risk governance and management framework in line with the requirements set out by the HKMA and other regulators. This framework is built around a structure that enables BEA's Board of Directors and management to discharge their risk management-related responsibilities with appropriate delegation and checks and balances. These responsibilities include defining risk appetite in accordance with the Group's business strategies and objectives, formulating risk policies that govern the execution of those strategies, and establishing procedures and limits for the approval, control, monitoring, and remedy of risks.

The Risk Committee stands at the highest level of the Group's risk governance structure below the Board of Directors. The Risk Committee provides direct oversight over the formulation of the Group's institutional risk appetite, and sets the levels of risk that the Group is willing to undertake with regard to its financial capacity, strategic direction, prevailing market conditions, and regulatory requirements.

The Risk Committee also ensures that the Group's risk appetite is reflected in the policies and procedures that BEA's management adopts to execute its business functions. Through the Crisis Management Committee, Risk Management Committee, and specialised risk management committees including the Credit Committee, Asset and Liability Management Committee, and Operational Risk Management Committee, at the executive level, and with overall coordination by the Risk Management Division, the Risk Committee regularly reviews the Group's risk management framework and ensures that all important risk-related tasks are performed according to established policies with appropriate resources.

The Risk Management Division is headed by the Group Chief Risk Officer & General Manager, who reports directly to the Chairman & Chief Executive and is responsible for overseeing the Group's risk management issues which include, but are not limited to, the risk management infrastructure, strategies, appetites, culture, and resources. The Risk Management Division assesses regulatory requirements, in particular the requirements under the Supervisory Policy Manuals issued by the HKMA, and is responsible for:

- (i) formulating risk management policies and guidelines and performing regular reviews in order to ensure that such policies and guidelines are kept up to date;
- (ii) monitoring risk exposure and compliance with the risk management framework using a risk-based approach that incorporates independent risk assessment, independent review of regular reports, independent review of new products/specific issues, and co-ordination of risk-related projects; and
- (iii) reporting at pre-determined schedule the monitoring results and significant risk related issues to the specialised risk management committees, and/or the Risk Management Committee, and/or the Risk Committee and/or the Board, where appropriate, so as to assist them to discharge their duty of oversight of risk management activities. The scope of BEA's risk management framework covers major types of risk, including credit risk, interest rate risk, legal risk, liquidity risk, market risk, money laundering and terrorist financing risk, operational risk, reputation risk, strategic risk and technology risk.

For interest rate risk, ALCO sets the strategy and policy for managing interest rate risk and the means for ensuring that such strategy and policy are implemented. The Risk Management Division is responsible for monitoring interest rate related activities to ensure compliance with the related bank policies, rules and regulations. The Banking Audit Department performs periodic review, to make sure the interest rate risk management functions are effectively carried out.

For the banking book, additional monitoring focuses on the repricing mismatches. Gap analysis provides a static view of the maturity and repricing characteristics of the Group's balance sheet positions. Repricing gap position limits are set to control the Group's interest rate risk.

Sensitivity analysis on earnings and economic value to interest rate changes is assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on both sides of the balance sheet and performed on a monthly basis. Sensitivity limits are set to control the Group's interest rate risk exposure under both earnings and economic value perspectives. The ALCO monitors the results thereof and decides remedial action if required.

In addition to the above, ALCO sets the strategy and policy for managing liquidity risk and the means for ensuring that such strategy and policy are implemented.

The Group monitors its liquidity position on a daily basis to ensure the Group's funding needs can be met and the statutory liquidity ratio is complied with. The Group's consolidated average LCR was 137.2% for the fourth quarter of 2016, which is above the statutory minimum requirement of 70%.

The stock of HQLA can be easily and immediately converted into cash to meet unexpected and material cash outflows.

Stress testing is regularly conducted to analyse liquidity risk. With reference to the stress-testing results, the Group identifies potential vulnerabilities within the Group and formulates a Contingency Funding Plan that describes the Group's strategy for dealing with any liquidity problem and the procedures for making up cash flow deficits in emergency situations.

## Credit Policies

The Group's primary credit approval body is the Credit Committee, which comprises four Deputy Chief Executives, Group Chief Risk Officer, Head of Credit Risk Management Department and a senior manager of Credit Risk Management Department. The Credit Committee has overall responsibility for the Group's credit policies and oversees the credit quality of the Group's advance portfolio. BEA has also established an Approval Centre, which comprises Head of Credit Risk Management Department and four other experienced senior managers of Risk Management Division, acting as an independent unit to approve credit according to the delegated lending authority. Under the oversight of the Credit Committee, Approval Centre and other officers of the Group are authorised to approve credit based on the size of the advance, the collateral provided, the credit standing of the applicant and other prescribed credit guidelines. The following table sets out the credit approval limits for various types of advances in Hong Kong:

	<b>Hong Kong</b>
	<b>(in HK\$ millions)</b>
Credit Committee . . . . .	Any amount
Approval Centre . . . . .	300 (150) <sup>(1)</sup>
Division Head . . . . .	100 (25) <sup>(1)</sup>
Department Head . . . . .	60 (10) <sup>(1)</sup>
Manager (Levels M4 to SM2) . . . . .	Ranging from 1.5 (0.5) <sup>(1)</sup> to 10 (3.5) <sup>(1)</sup> for corporate lending/card and consumer finance

*Note:*

(1) The numbers in parentheses represent credit limits for unsecured portions of advances.



The Credit Risk Management Department under the Risk Management Division is responsible for reviewing credit applications for significant loan amounts. When a customer fills out an advance application or requests a credit line, the branch or lending department account officer collects information through customer interviews, documentation requests and feasibility studies as well as other sources. After a thorough evaluation, the application is submitted to the appropriate person having sufficient lending authority for approval.

The Group has adopted lending policies with loan-to-value limits which apply to advances secured by a legal charge over an asset or property. Loan-to-value ratios on owner-occupied residential mortgages in Hong Kong (excluding advances under GHOS, PSPS and TPS) are limited to 50% (for property value at or above HK\$10 million); 60% (for property value at HK\$7 million or above but below HK\$10 million, and maximum loan amount being capped at HK\$5 million); 60% (for property value below HK\$7 million). Loan-to-value ratios on non-owner occupied residential mortgages and commercial / industrial mortgages are limited to 50% and 40%, respectively. Lower loan-to-value limits will be applied to applicants whose income is mainly derived from outside HK. Underlying property values are based on the lower of the purchase price and the independently appraised value of the property.

Besides, the Group's lending policies limit the maximum customer debt servicing ratio to 40% to 50%, while stress test on the borrower's repayment ability by assuming a rise in interest rate of 3% is imposed for property mortgages.

Meanwhile, for property mortgages under the approach of assessment by net worth of the borrower (with the asset-to-total debt obligation ratio of the borrower of at least 100%), the loan-to-value ratio is limited to 20% to 40%.

Hong Kong has adopted the Basel II Accord capital adequacy standards from the beginning of 2007. In December 2007, BEA received the approval from the HKMA to adopt the advanced approaches under the Basel II Accord, namely the Foundation Internal Ratings-based (“**IRB**”) Approach for credit risk, the Internal Models Approach for market risk and the Standardised Approach for operational risk. Since 31 December 2007, the Group has used the IRB Approach to determine its credit risk weighted assets for calculating the CAR. The business benefits of adopting these advanced approaches are significant, including enhanced risk management, more efficient use of capital and higher transparency in the disclosure of risk-related information.

In December 2010, the Basel Committee issued the final Basel III regulatory framework presenting the Committee's reforms to strengthen capital and liquidity standards in order to promote a more resilient banking sector.

In line with the international implementation timetable set by the Basel Committee, the Basel III rules pertaining to capital standards have been enacted into local banking regulations and implemented in Hong Kong on 1 January 2013.

## ASSET QUALITY

### Overview

The performance of the Hong Kong economy is heavily dependent on the property sector, and, as at 31 December 2014, 2015 and 2016, home mortgages and advances for property investment and development (excluding advances under GHOS, PSPS and TPS) in Hong Kong together accounted for approximately 20.1%, 21.7% and 22.2%, respectively, of the Group's total advances to customers. As a result, the Group's asset quality is vulnerable to deflation in property prices. The ability of borrowers, including homeowners, to make timely repayment of their advances may be adversely affected by rising interest rates or a slowdown in economic growth. See "*Investment Considerations — Considerations Relating to the Group — Hong Kong Economy*" and "*Investment Considerations — Considerations Relating to the Group — Interest Rate Risk*". As at 31 December 2014, 2015 and 2016, home mortgage advances (including but not limited to advances under GHOS, PSPS and TPS) in Hong Kong amounted to HK\$34,110 million, HK\$41,855 million and HK\$41,738 million, respectively, or approximately 7.7%, 9.5% and 9.2%, respectively, of the Group's total advances to customers and was one of the most significant segments of the Group's total advances to customers. See "*Investment Considerations — Considerations Relating to the Group — Concentration Risk — Exposure to the Property Market*".

The Group is committed to expanding its business and operations in the PRC and remains susceptible to risks associated with lending in the PRC, which could lead to an increase in the Group's classified advances. As at 31 December 2014, 2015 and 2016, the Group's PRC exposure is approximately 37.0%, 36.7% and 34.0%, respectively, of the Group's total advances and its PRC impaired advances account for approximately 1.3%, 2.4% and 2.6%, respectively, of its total PRC exposure. See "*Investment Considerations — Considerations Relating to the Group — Exposure to Mainland China Market*".

### Advance classification

The Group classifies the advances in a "two dimensional" structure: one dimension reflects exclusively the borrower's repayment ability and another dimension reflects the transaction specific characteristics.

The dimension that reflects the borrower's repayment ability is classified into the following grading:

- Grades 1 through 15 — pass;
- Grade 16-17 — special mention;
- Grade 18 — sub-standard;
- Grade 19 — doubtful; and
- Grade 20 — loss.

In classifying the individual borrowers into one of the 20 gradings, the Group considers relevant factors including: (i) estimation of probability of default from the internal rating systems comprising statistical measurement and expert judgment with consideration of quantitative and qualitative elements such as the borrower's financial condition, the management and operation of the borrower's business, market conditions affecting the borrower's industry and demographic characteristics; (ii) the payment history of the borrower; and (iii) the history of the Group's dealings with the borrower concerned.

Another dimension that reflects the transaction specific characteristics considers relevant factors including: (i) type of advance; (ii) seniority of the advance; and (iii) credit mitigation such as collateral and guarantee.

BEA believes that its advance classification policy is in compliance with the Banking Ordinance and the applicable guidelines of the HKMA.

### **Recognition of impaired loans**

The Group's impaired loans are sub-divided into three categories: "sub-standard" (Grade 18), "doubtful" (Grade 19) and "loss" (Grade 20). When the repayment of an advance is uncertain (for example, there is a past-due record of 90 days or more), the Group downgrades the advance to sub-standard. If full recovery of the advance is in doubt and the Group expects to sustain a loss of principal or interest, the Group classifies the advance as doubtful. Loss advances are those which are considered non-collectible after exhausting all collection efforts, such as the realisation of collateral and the institution of legal proceedings, and the liquidator or official receiver has ascertained the relevant recovery ratio.

### **Impairment of Loans and Receivables**

At each balance sheet date, the carrying amount of the Group's assets are reviewed to determine whether there is objective evidence of impairment. If internal and external sources of information indicate such evidence exists, the carrying amount is reduced to the estimated recoverable amount and an impairment loss is recognised in the profit and loss account.

The total allowance for impairment losses consists of two components: individual impairment allowances, and collective impairment allowances.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgments about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgment, the Group believes that the impairment allowances on loans and advances to customers are reasonable and supportable and that its provisioning policies are in compliance with the Banking Ordinance and the applicable guidelines of the HKMA.

Where there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

The table below sets forth a summary of the Group's impairment allowance for the year ended 31 December 2014:

	<b>Year ended 31 December 2014</b>	
	(in HK\$ millions, except percentages)	
Beginning balance . . . . .	1,054	
Provision during the period . . . . .	1,332	
Bad debts charges recovered . . . . .	(334)	
Loans written off . . . . .	(849)	
Other movements . . . . .	183	
Closing balance . . . . .	<u>1,386</u>	
Impairment allowance as a percentage of:		
Total loans at period/year end . . . . .	0.3%	
Total impaired loans at period/year end . . . . .	50.7%	
Write-offs as a percentage of:		
Average total loans during the period/year . . . . .	0.2%	
Total loans at period/year end . . . . .	0.2%	
Total impaired loans at period/year end . . . . .	31.0%	
Impaired loan . . . . .	2,736	
Total loan . . . . .	443,287	

The table below sets forth a summary of the Group's impairment allowance from continuing operations for the years ended 31 December 2015 and 2016:

	<b>Year ended 31 December</b>	
	<b>2015</b>	<b>2016</b>
	(in HK\$ millions, except percentages)	
Beginning balance . . . . .	1,386	2,420
Provision during the period . . . . .	2,253	3,943
Bad debts charges recovered . . . . .	(222)	(481)
Loans written off . . . . .	(1,026)	(1,793)
Other movements . . . . .	29	(206)
Closing balance . . . . .	<u>2,420</u>	<u>3,883</u>
Impairment allowance as a percentage of:		
Total loans at period/year end . . . . .	0.5%	0.9%
Total impaired loans at period/year end . . . . .	48.7%	57.4%
Write-offs as a percentage of:		
Average total loans during the period/year . . . . .	0.2%	0.4%
Total loans at period/year end . . . . .	0.2%	0.4%
Total impaired loans at period/year end . . . . .	20.6%	26.5%
Impaired loan . . . . .	4,973	6,767
Total loan . . . . .	441,506	454,242

For the year ended 31 December 2016, the provision for impairment allowance from continuing operations was HK\$3,943 million which had increased by HK\$1,690 million as compared with the provision for the year ended 31 December 2015 (HK\$2,253 million). For the year ended 31 December 2014, the provision for impairment allowance was HK\$1,332 million. BEA believes its provisions for impaired loans are appropriate and more adequate in the current uncertain economic environment.

For the year ended 31 December 2016, HK\$481 million of bad debts from continuing operations had been recovered, which represents an increase of HK\$259 million as compared against the bad debts recovered from continuing operations for the year ended 31 December 2015 (HK\$222 million). For the year ended 31 December 2015, HK\$222 million of bad debts from continuing operations had been recovered, which represents a decrease of HK\$112 million as compared against the bad debts recovered for the year 31 December 2014 (HK\$334 million).

### Top Ten Impaired Loans

As at 31 December 2016, the Group's ten largest impaired loans accounted for approximately 0.5% of its total advances and approximately 34.3% of its gross impaired loan portfolio. The majority of the borrowers of such ten largest impaired loans were engaged in wholesale and retail trade and accounted for approximately 70.3% of the aggregate exposure relating to such ten largest impaired loans as at 31 December 2016. As at 31 December 2016, the Group's exposure under its ten largest impaired loans ranged from HK\$67 million to HK\$1,163 million per impaired loan, and amounted to approximately HK\$2,324 million in the aggregate. As at 31 December 2015, the Group's exposure under its ten largest impaired loans ranged from HK\$574 million to HK\$58 million per impaired loan, and amounted to approximately HK\$1,345 million in the aggregate. As at 31 December 2014, the Group's exposure under its ten largest impaired loans ranged from HK\$611 million to HK\$50 million per impaired loan, and amounted to approximately HK\$1,199 million in the aggregate.

### Impaired Loans That Have Been Restructured

The Group's classified advances/impaired loans are restructured on a case-by-case basis, subject to the approval of the appropriate lending parties for both the restructured limits and recovery measures. The Group believes that it maintains a prudent reclassification policy. For example, if payments under an advance are rescheduled, that advance will not be reclassified and will remain under adverse classification (either as a "sub-standard" or "doubtful" advance) and may only be upgraded to a special mention advance if the revised payment terms are honoured for a period of six months, in the case of monthly payments, and 12 months, in the case of quarterly or semi-annual repayments.

As at 31 December 2014, 2015 and 2016, the Group's impaired loans including those that have been restructured through the rescheduling of principal repayments and deferral or waiver of interest were as follows:

	As at 31 December		
	2014	2015	2016
Gross impaired loans . . . . .	2,736	4,973	6,767
Aggregate individual impairment loss allowance . . . . .	419	1,021	1,715
Net impaired loans . . . . .	<u>2,317</u>	<u>3,952</u>	<u>5,052</u>
Gross impaired loans as a percentage of total loan portfolio	0.6%	1.1%	1.5%
Net impaired loans as a percentage of total loan portfolio . .	0.5%	0.9%	1.1%

## Held-to-maturity Debt Securities

The Group's held-to-maturity debt securities included listed and unlisted debt securities. As at 31 December 2014, 2015 and 2016, the book value of these securities were HK\$6,747 million, HK\$6,199 million and HK\$5,663 million, respectively, which represented approximately 6.4%, 5.7% and 4.6% of the Group's total investments in securities, respectively. These debt securities included both Hong Kong dollar and U.S. dollar denominated bonds and notes. See “— *Asset and Liability Management*”.

The table below sets forth a summary of the carrying values of the Group's held-to-maturity debt securities, categorised by the types of issuers as at the dates indicated:

	As at 31 December					
	2014	Percentage	2015	Percentage	2016	Percentage
Held-to-maturity securities issued by:						
Central governments and central banks . . . . .	1,546	22.9%	1,850	29.8%	2,993	52.9%
Public sector entities . . . . .	22	0.3%	22	0.4%	9	0.2%
Banks and other financial institutions . . . . .	2,495	37.0%	1,156	18.6%	172	3.0%
Corporate entities . . . . .	2,684	39.8%	3,171	51.2%	2,489	43.9%
<b>Total</b> . . . . .	<b>6,747</b>	<b>100.0%</b>	<b>6,199</b>	<b>100.0%</b>	<b>5,663</b>	<b>100.0%</b>

## ASSET AND LIABILITY MANAGEMENT

The Group's objective on asset and liability management is to maximise its net interest income and return on assets and equity while providing for liquidity and effective risk management. Recommendations to management on liquidity, interest rate policy and other significant asset and liability management matters are made by ALCO, which consists of four Deputy Chief Executives; Group Chief Risk Officer; Group Chief Financial Officer and Head of Treasury Markets Division. The Head of Asset and Liability Management Department acts as the secretary of ALCO.

One of the key components of the Group's asset and liability management is the management of market risk, interest rate risk and liquidity risk. The Group's policies regarding the management of these risks are formulated, and their implementation are co-ordinated, by ALCO. ALCO meets on a bi-weekly basis to formulate the asset and liability strategy, such as the deposit rates and advance pricing strategies. The Treasury Markets Division is responsible for the daily operating management of the discretionary portion of the Group's assets and liabilities within the approved internal limits, including re-pricing gap limits. The derivative transactions entered into by the Group are substantially in response to customer demands, in addition to BEA book hedging, and no significant proprietary trading positions are maintained by the Group.

The Group measures the exposure of its assets and liabilities to fluctuations in interest rates primarily by way of gap analysis which provides the Group with a static view of the maturity and re-pricing characteristics of balance sheet positions. An interest rate gap report is prepared by classifying interest rate sensitive all assets and liabilities into various time period categories according to contracted maturities or anticipated re-pricing dates whichever is earlier. The difference in the amount of interest rate sensitive assets and liabilities maturing or being re-priced in any time period category would then give the Group an indication of the extent to which the Group is exposed to the risk of potential changes in the net interest income.

The following table sets out the Group's sensitivity analysis on interest rate risk as at 31 December 2014, which measures the potential effect of changes in interest rates on its net interest income and economic value change:

	As at 31 December		
	2014		
	HK\$	U.S.\$	RMB
Impact on net interest income over the next 12 months if interest rates rise by 200 basis points . . . . .	534	3	570
Impact on economic value if interest rates rise by 200 basis points . . .	(199)	118	59

The following table sets out the Group's sensitivity analysis on interest rate risk as at 31 December 2015 and 2016, which measures the potential effect of changes in interest rates on its net interest income from continuing operations and economic value change:

	As at 31 December					
	2015			2016		
	HK\$	U.S.\$	RMB	HK\$	U.S.\$	RMB
Impact on net interest income from continuing operations over the next 12 months if interest rates rise by 200 basis points . . . . .	945	64	258	946	50	691
Impact on economic value if interest rates rise by 200 basis points . . . . .	(132)	89	201	(206)	96	501

As at 31 December 2016, if interest rate increased by 200 basis points, BEA would expect the net interest income from continuing operations in respect of the Group's dealings in Hong Kong dollar, U.S. dollar and Renminbi to increase by HK\$946 million, increase by HK\$50 million and increase by HK\$691 million, respectively, and the economic value for the Group to decrease by HK\$206 million, increase by HK\$96 million and increase by HK\$501 million, respectively. As at 31 December 2015, if interest rate increased by 200 basis points, BEA would expect the net interest income from continuing operation in respect of the Group's dealings in Hong Kong dollar, U.S. dollar and Renminbi to increase by HK\$945 million, increase by HK\$64 million and increase by HK\$258 million, respectively, and the economic value for the Group to decrease by HK\$132 million, increased by HK\$89 million and increase by HK\$201 million, respectively. As at 31 December 2014, if interest rates increased by 200 basis points, BEA would expect that the net interest income in respect of the Group's dealings in Hong Kong dollar, U.S. dollar and Renminbi to increase by HK\$534 million, increase by HK\$3 million and increase by HK\$570 million, respectively, and the economic value for the Group to decrease by HK\$199 million, increase by HK\$118 million and increase by HK\$59 million, respectively.

The analysis is based on the following assumptions:

- (i) there is a parallel shift in the yield curve and in interest rates;
- (ii) there are no other changes to the portfolio;
- (iii) no loan prepayment is assumed as the majority of loans is on a floating rate basis; and
- (iv) deposits without fixed maturity dates are assumed to be repriced on the next day.

Liquidity pertains to the Group's ability to meet obligations as they fall due. To manage liquidity risk, the Group has established a liquidity risk management policy which is reviewed by ALCO and approved by BEA's Board of Directors. The Group measures its liquidity through LCR, loan-to-deposit ratio and the maturity mismatch portfolio.

The Group monitors its liquidity position on a daily basis to ensure the Group's funding needs can be met and the statutory LCR is complied with. The Group's consolidated average LCR was 137.2% for the fourth quarter of 2016, which is above the statutory minimum requirement of 70%.

As at 31 December 2014, 2015 and 2016, approximately 80.0%, 84.4% and 79.2%, respectively, of the Group's advances were made at floating rates of interest. The Group's interest-earning assets have floating interest rates fixed by reference to BEA's BLR, prime rate and interbank rates, and the Group's interest-bearing liabilities have floating interest rates by reference to interbank rates and savings deposit rates. ALCO continuously monitors the gap between HIBOR and the prime rate and, consequently, the Group's net interest margin. If the Group's net interest margin declines due to the squeeze of the spread between BEA's prime rate and HIBOR, ALCO may recommend the adjustment of BEA's prime rate charged on advances and/or the expansion of higher-yield lending business.

The following table sets out the Group's average balances of interest-earning assets and interest-bearing liabilities, interest and related average interest rates for the year ended 31 December 2014. Average balances of interest-earning assets and interest-bearing liabilities for the year ended 31 December 2014 are based on the arithmetic mean of the respective balances at the beginning and the end of such period.

	Years ended 31 December 2014		
	Average balance	Interest	Average rate (%)
	HK\$ Mn	HK\$ Mn	%
<b>ASSETS</b>			
<b>Interest-earning assets</b>			
Customers loans and credit			
Advances to customers . . . . .	432,212		
Trade bills less provision . . . . .	62,854		
Total . . . . .	<u>495,066</u>	<u>19,779</u>	4.0
Interbank placements and loans			
Cash and balances withbanks . . . . .	59,048		
Money at call and short notice . . . . .	38,113		
Placements . . . . .	24,797		
Advances to banks . . . . .	26		
Total . . . . .	<u>121,984</u>	<u>3,020</u>	2.5
Securities			
Treasury bills . . . . .	23,758		
Certificates of deposit . . . . .	4,973		
Debt securities . . . . .	67,872		
Total . . . . .	<u>96,603</u>	<u>2,928</u>	3.0
Total interest-earning assets . . . . .	713,653	25,727	3.6
Allowance for possible loan losses . . . . .	(1,150)		
Non-interest earning assets . . . . .	79,151		
Total assets . . . . .	<u>791,654</u>		



	Years ended 31 December 2014		
	Average	Interest	Average
	balance		rate (%)
	HK\$ Mn	HK\$ Mn	%
<b>LIABILITIES</b>			
<b>Interest-bearing liabilities</b>			
Deposits			
Deposits from customers . . . . .	548,191	10,765	2.0
Deposits and balances of banks . . . . .	32,551	433	1.3
Total . . . . .	<u>580,742</u>	<u>11,198</u>	1.9
Other liabilities			
Certificates of deposits . . . . .	45,841		
Debt securities issued . . . . .	18,870		
Loan capital. . . . .	14,281		
Total . . . . .	<u>78,992</u>	<u>1,598</u>	2.0
Total interest-bearing liabilities . . . . .	659,734	12,796	1.9
Non interest-bearing liabilities . . . . .	61,098		
Total liabilities . . . . .	<u>720,832</u>		
<b>NET INTEREST INCOME</b> . . . . .		<u>12,931</u>	
<b>NET INTEREST SPREAD</b> <sup>(1)</sup> . . . . .			<u>1.7</u>

Note:

(1) Net interest spread is the difference between average interest yield on interest-earning assets and average funding cost on interest-bearing liabilities.

The following table sets out the Group's average balances of interest-earning assets and interest-bearing liabilities, interest and related average interest rates for the years ended 31 December 2015 and 2016. Average balances of interest-earning assets and interest-bearing liabilities for the years ended 31 December 2015 and 2016 are based on the arithmetic mean of the respective balances at the beginning and the end of such period.

	Years ended 31 December					
	2015			2016		
	Average	Interest	Average	Average	Interest	Average
balance	rate (%)		balance	rate (%)		
	HK\$ Mn	HK\$ Mn	%	HK\$ Mn	HK\$ Mn	%
<b>ASSETS</b>						
<b>Interest-earning assets</b>						
Customers loans and credit						
Advances to customers . . . . .	443,101			443,180		
Trade bills less provision . . . . .	42,783			14,407		
Total . . . . .	<u>485,884</u>	<u>18,722</u>	3.9	<u>457,587</u>	<u>15,764</u>	3.4
Interbank placements and loans						
Cash and balances withbanks	54,965			52,665		
Money at call and short						
notice . . . . .	51,413			48,038		
Placements . . . . .	23,408			19,262		
Advances to banks . . . . .	43			14		
Total . . . . .	<u>129,829</u>	<u>2,104</u>	1.6	<u>119,979</u>	<u>1,722</u>	1.4

Years ended 31 December

	2015			2016		
	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
	HK\$ Mn	HK\$ Mn	%	HK\$ Mn	HK\$ Mn	%
<b>Securities</b>						
Treasury bills . . . . .	21,751			21,769		
Certificates of deposit . . . . .	7,863			3,891		
Debt securities . . . . .	73,601			90,986		
Total . . . . .	<u>103,215</u>	<u>2,758</u>	2.7	<u>116,646</u>	<u>2,866</u>	2.5
Total interest-earning assets . . .	718,928	23,584	3.3	694,212	20,352	2.9
Allowance for possible loan losses . . . . .	(1,661)			(2,651)		
Non-interest earning assets . . . . .	<u>72,848</u>			<u>69,863</u>		
Total assets . . . . .	<u>790,115</u>			<u>761,424</u>		
<b>LIABILITIES</b>						
<b>Interest-bearing liabilities</b>						
<b>Deposits</b>						
Deposits from customers . . . . .	534,022	9,570	1.8	528,037	7,486	1.4
Deposits and balances of banks . . . . .	<u>35,678</u>	<u>515</u>	1.4	<u>30,377</u>	<u>401</u>	1.3
Total . . . . .	<u>569,700</u>	<u>10,085</u>	1.8	<u>558,414</u>	<u>7,887</u>	1.4
<b>Other liabilities</b>						
Certificates of deposits . . . . .	44,446			32,951		
Debt securities issued . . . . .	18,060			9,137		
Loan capital. . . . .	<u>17,220</u>			<u>18,130</u>		
Total . . . . .	<u>79,726</u>	<u>1,287</u>	1.6	<u>60,218</u>	<u>1,140</u>	1.9
Total interest-bearing liabilities	649,426	11,372	1.8	618,632	9,027	1.5
Non interest-bearing liabilities . . .	<u>60,069</u>			<u>55,753</u>		
Total liabilities . . . . .	<u>709,495</u>			<u>674,385</u>		
<b>NET INTEREST INCOME FROM CONTINUING OPERATIONS . . . . .</b>						
		<u>12,212</u>			<u>11,325</u>	
<b>NET INTEREST SPREAD<sup>(1)</sup> . . . . .</b>						
			<u>1.5</u>			<u>1.4</u>

Note:

(1) Net interest spread is the difference between average interest yield on interest-earning assets and average funding cost on interest-bearing liabilities.

**INTERNAL AUDIT**

The Internal Audit Division is responsible for auditing the Group's operations. Through regular end-to-end process audits of all departments, subsidiaries and branches of the Group, the Internal Audit Division reviews and evaluates the appropriateness of the control design and the operating effectiveness of the risk management and internal control systems that safeguard the Group's assets, ensure the reliability of financial information and the compliance with relevant regulatory and statutory requirements. The results of internal audit would be communicated to the auditors and any internal audit recommendations are generally expected to be implemented within a reasonable timeframe after the issuance of the internal audit report. Internal audit report summarising results of audit activities is required to be submitted to the Chairman of the Audit Committee on a bi-monthly basis and to the Audit Committee on semi-annual basis.

Upon the incorporation of BEA (China) in April 2007, BEA (China) established a separate Internal Audit Division that reports to its own Audit Committee established under the board. The reporting process adopted is similar to BEA's reporting process described above.

## **COMPLIANCE**

The Compliance Division was established to administer regulatory compliance issues concerning the Group's business. It is responsible for reviewing new products and business proposals (from the capacity as a member of the Steering Group for New Product and Business Risk Management), conducts periodic review of the Group's activities and advises senior management of the Group in accordance with applicable laws, rules and regulations. Another key function of the Compliance Division is to raise compliance awareness amongst staff members. Amongst others, a Compliance Risk Management Policy has been issued to relevant staff members of the Group. Forming part of the Compliance Risk Management Policy, a Group Policy on the Anti-Money Laundering and Counter-Terrorist Financing, which adheres to those requirements stipulated in the Anti-Money Laundering and Counter Terrorist Financing (Financial Institutions) Ordinance (Cap. 615) of Hong Kong, and the Guideline on Anti-Money Laundering and Counter Terrorist Financing (for Authorized Institutions) issued by the HKMA is also available to staff members of the Group. In addition, the Group's internal controls are also reviewed by its internal auditors. Regular training sessions are conducted and newsletters are issued to update the Group's staff members on any significant regulatory changes relevant to the operations of the Group.

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

*This section replaces the section headed “Board of Directors and Senior Management” on pages 96 to 105 of the Original Offering Circular in its entirety.*

### BOARD OF DIRECTORS

BEA is managed by its Board of Directors, which is responsible for the direction and management of BEA. The Articles of Association of BEA require that there must be not less than five Directors, unless and until otherwise determined by an ordinary resolution of the shareholders of BEA. Directors are appointed at any time either at a general meeting of shareholders or by the Board of Directors.

As at 31 March 2017, the Board of Directors of BEA comprised the following individuals:

Name	Age	Title	Address
Dr. the Hon. Sir David LI Kwok-po. . . . .	78	Chairman & Chief Executive	10 Des Voeux Road Central, Hong Kong
Professor Arthur LI Kwok-cheung . . . . .	71	Non-executive Director (Deputy Chairman)	Room 2502, 25/F., BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong
Dr. Allan WONG Chi-yun . . .	66	Independent Non-executive Director (Deputy Chairman)	23rd Floor, Tai Ping Industrial Centre, Block 1, 57 Ting Kok Road, Tai Po, New Territories
Mr. Aubrey LI Kwok-sing . . .	67	Non-executive Director	Room 706, 9 Queen’s Road Central, Hong Kong
Mr. Winston LO Yau-lai . . . . .	75	Independent Non-executive Director	3/F., No. 1 Kin Wong Street, Tuen Mun, New Territories
Mr. Richard LI Tzar-kai . . . . .	50	Independent Non-executive Director	38/F., Champion Tower, 3 Garden Road, Central, Hong Kong
Mr. Stephen Charles LI Kwok-sze . . . . .	57	Non-executive Director	Unit 26-F, StarCrest — Tower 1, 9 Star Street, Hong Kong
Mr. KUOK Khoon-ean . . . . .	61	Independent Non-executive Director	31st Floor, Kerry Centre, 683 King’s Road, Quarry Bay, Hong Kong
Dr. Isidro FAINÉ CASAS. . . . .	74	Non-executive Director	Avenida Diagonal 621-629, 08028 Barcelona, Spain
Dr. Peter LEE Ka-kit . . . . .	53	Non-executive Director	75th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
Mr. Adrian David LI Man-kiu . . . . .	43	Executive Director & Deputy Chief Executive	10 Des Voeux Road Central, Hong Kong
Mr. Brian David LI Man-bun . . . . .	42	Executive Director & Deputy Chief Executive	10 Des Voeux Road Central, Hong Kong

Name	Age	Title	Address
Dr. Daryl NG Win-kong . . . . .	38	Independent Non-executive Director	12th Floor, Tsimshatsui Centre, Salisbury Road, Tsimshatsui, Kowloon
Mr. Masayuki OKU . . . . .	72	Non-executive Director	1-2 Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan
Dr. the Hon. Rita FAN HSU Lai-tai . . . . .	71	Independent Non-executive Director	25th Floor, Tower 1, Tern Centre, 237 Queen's Road Central, Hong Kong
Mr. Meocre LI Kwok-wing . . .	61	Independent Non-executive Director	Unit E, 10/F., Seabright Plaza, 9-23 Shell Street, North Point, Hong Kong
Dr. the Hon. Henry TANG Ying-yen . . . . .	64	Independent Non-executive Director	31/F., Peninsula Tower, 538 Castle Peak Road, Cheung Sha Wan, Kowloon
The Hon. CHAN Kin-por . . .	62	Independent Non-executive Director	1 Legislative Council Road, Central, Hong Kong
Dr. Delman LEE . . . . .	49	Independent Non-executive Director	5/F., TAL Building, 49 Austin Road, Kowloon

**Dr. the Hon. Sir David LI Kwok-po**, *GBM, GBS, OBE, JP, MA Cantab. (Economics & Law), Hon. LLD (Cantab), Hon. DSc. (Imperial), Hon. LLD (Warwick), Hon. DBA (Edinburgh Napier), Hon. D.Hum.Litt. (Trinity, USA), Hon. LLD (Hong Kong), Hon. DSocSc (Lingnan), Hon. DLitt (Macquarie), Hon. DSocSc (CUHK), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, FCI Arb, Officier de l'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Commandeur dans l'Ordre National de la Légion d'Honneur Chairman & Chief Executive and Member of the Nomination Committee*

Sir David, aged 78, joined BEA in 1969. He was appointed a Director in 1977, Chief Executive in 1981, Deputy Chairman in 1995 and Chairman in 1997. Sir David is the Chairman or a Director of various members of the Group, and he is also the Chairman or a Member of various board committees of BEA and the Group's members.

Sir David is an Independent Non-executive Director of Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, PCCW Limited, San Miguel Brewery Hong Kong Limited and Vitasoy International Holdings Limited. He is also a Director of Hong Kong Interbank Clearing Limited. He was a Director of CaixaBank, S.A. (listed in Spain) and an Independent Non-executive Director of SCMP Group Limited (now known as Great Wall Pan Asia Holdings Limited).

Sir David is a Member of the Council of the Treasury Markets Association. He is Founding Chairman of The Friends of Cambridge University in Hong Kong Limited, Chairman of the Advisory Board of The Salvation Army, Hong Kong and Macau Command and Chairman of the Executive Committee of St. James' Settlement. He was a Member of the Legislative Council of Hong Kong from 1985 to 2012.

Sir David is the brother of Professor Arthur LI Kwok-cheung, the cousin of Mr. Aubrey LI Kwok-sing and Mr. Stephen Charles LI Kwok-sze, and the father of Mr. Adrian David LI Man-kiu and Mr. Brian David LI Man-bun.

**Professor Arthur LI Kwok-cheung**, GBS, MA, MD, M.B.B.Chir (Cantab), DSc (Hon), DLitt (Hon), Hon DSc (Med), LLD (Hon), Hon Doc (Soka), FRCS (Eng & Edin), FRACS, Hon FACS, Hon FRCS (Glasg & I), Hon FRSM, Hon FPCS, Hon FCSHK, Hon FRCP (Lond), JP Deputy Chairman, Non-executive Director and Member of the Risk Committee

Professor Li, aged 71, was a Director of BEA (1995-2002) and was re-appointed a Director in 2008 and was appointed a Deputy Chairman in 2009.

Professor Li is a Member of the Executive Council of HKSAR (he was also a Member during 2002 to June 2007). He is a Member of the National Committee of the Chinese People's Political Consultative Conference ("CPPCC"). Professor Li is also the Chairman of the Council for Sustainable Development of the Government of HKSAR ("HKSARG") and the Chairman of the Council of the University of Hong Kong.

Professor Li is an Independent Non-executive Director of Shangri-La Asia Limited and Nature Home Holding Company Limited, and a Non-executive Director (from May 2010 to December 2014, and was re-appointed on 20th January, 2016) of BioDiem Ltd. (delisted from Australian Securities Exchange in November 2013). He was a Non-Independent Non-executive Director of AFFIN Holdings Berhad (listed in Malaysia) and a Director of CaixaBank, S.A. (listed in Spain).

Professor Li was the Secretary for Education and Manpower of HKSARG (2002-June 2007). Before these appointments, he was the Vice Chancellor of the Chinese University of Hong Kong (1996-2002) and was the Chairman of Department of Surgery and the Dean of Faculty of Medicine of the Chinese University of Hong Kong.

Professor Li had held many important positions in various social service organisations, medical associations, and educational bodies, including the Education Commission, Committee on Science and Technology, the Hospital Authority, the Hong Kong Medical Council, the University Grants Committee, the College of Surgeons of Hong Kong, and the United Christian Medical Services Board. He was a Member of the Board of Directors of the Hong Kong Science and Technology Parks Corporation and the Hong Kong Applied Science and Technology Research Institute, and Vice President of the Association of University Presidents of China. He was a Hong Kong Affairs Adviser to China.

Professor Li is the brother of Dr. the Hon. Sir David LI Kwok-po, the cousin of Mr. Aubrey LI Kwok-sing and Mr. Stephen Charles LI Kwok-sze, and the uncle of Mr. Adrian David LI Man-kiu and Mr. Brian David LI Man-bun.

**Dr. Allan WONG Chi-yun**, GBS, MBE, BSc, MSEE, Hon. DTech, JP  
Deputy Chairman, Independent Non-executive Director, Chairman of the Nomination Committee and the Risk Committee, Member of the Audit Committee and the Remuneration Committee

Dr. Wong, aged 66, was appointed a Director in 1995 and a Deputy Chairman in 2009. He is the Chairman and Group Chief Executive Officer of VTech Holdings Limited. Dr. Wong is an Independent Non-executive Director of China-Hongkong Photo Products Holdings Ltd., Li & Fung Ltd and MTR Corporation Limited.

Dr. Wong holds a Bachelor of Science degree in electrical engineering from the University of Hong Kong, a Master of Science degree in electrical and computer engineering from the University of Wisconsin and an honorary degree of Doctor of Technology from the Hong Kong Polytechnic University.

**Mr. Aubrey LI Kwok-sing, ScB, MBA**

*Non-executive Director, Member of the Remuneration Committee and the Risk Committee*

Mr. Li, aged 67, was appointed a Director in 1995. He is Chairman of IAM Holdings (Hong Kong) Limited and Chairman of the Advisory Board of MCL Financial Group Limited, both Hong Kong based investment firms. Mr. Li possesses extensive experience in the fields of investment banking, merchant banking and capital markets. He is also an Independent Non-executive Director of Cafe de Coral Holdings Limited, China Everbright International Limited, Kunlun Energy Company Limited, Kowloon Development Co. Ltd, Pokfulam Development Company Limited and Tai Ping Carpets International Limited.

Mr. Li has an ScB in Civil Engineering from Brown University and a Master of Business Administration from Columbia University.

Mr. Li is the cousin of Dr. the Hon. Sir David LI Kwok-po, Professor Arthur LI Kwok-cheung and Mr. Stephen Charles LI Kwok-sze, and the uncle of Mr. Adrian David LI Man-kiu and Mr. Brian David LI Man-bun.

**Mr. Winston LO Yau-lai, SBS, BSc, MSc**

*Independent Non-executive Director, Chairman of the Audit Committee, Member of the Nomination Committee, the Remuneration Committee and the Risk Committee*

Mr. Lo, aged 75, was appointed a Director in 2000. He is the Executive Chairman of Vitasoy International Holdings Limited.

Mr. Lo graduated from the University of Illinois with a Bachelor of Science degree in Food Science and gained his Master of Science degree in Food Science from Cornell University.

Mr. Lo is a Director of Ping Ping Investment Company Ltd.

Mr. Lo is a Life Member of the Cornell University Council.

**Mr. Richard LI Tzar-kai**

*Independent Non-executive Director*

Mr. Li, aged 50, was appointed a Director in 2001. Mr. Li is an Executive Director and the Chairman of PCCW Limited, a global company headquartered in Hong Kong which holds interests in telecommunications, media, IT solutions, property development and investment, and other businesses. He is also the Executive Chairman and an Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust. He is also the Chairman and Chief Executive of the Pacific Century Group, an Executive Director and the Chairman of Pacific Century Premium Developments Limited, the Chairman and an Executive Director of Singapore-based Pacific Century Regional Developments Limited (listed in Singapore). Mr. Li is a Member of the Center for Strategic and International Studies' International Councillors' Group in Washington, D.C., and a Member of the Global Information Infrastructure Commission. Mr. Li was awarded the Lifetime Achievement Award by the Cable & Satellite Broadcasting Association of Asia in November 2011.

**Mr. Stephen Charles LI Kwok-sze, BSc (Hons.), ACA**

*Non-executive Director*

Mr. Li, aged 57, was appointed a Director in 2006. He is a Member of the Institute of Chartered Accountants in England and Wales. Mr. Li holds a Bachelor of Science (Hons.) Degree in Mathematics from King's College, University of London, U.K. He is a Director of a hedge fund based in Europe and Affin Hwang Investment Bank Berhad. He has extensive experience in investment banking, having held senior capital markets positions with international investment banks in London and Hong Kong.

Mr. Li is a member of the Executive Committee and the Honorary Treasurer of The Keswick Foundation.

Mr. Li is the cousin of Dr. the Hon. Sir David LI Kwok-po, Professor Arthur LI Kwok-cheung and Mr. Aubrey LI Kwok-sing, and the uncle of Mr. Adrian David LI Man-kiu and Mr. Brian David LI Man-bun.

**Mr. KUOK Khoon-ean**

*Independent Non-executive Director and Member of the Nomination Committee*

Mr. Kuok, aged 61, was appointed a Director in 2008. He is the Chairman of Kuok (Singapore) Limited, a Director of Kerry Group Limited and Kerry Holdings Limited. He is the Chairman and Non-executive Director of PACC Offshore Services Holdings Ltd. and a Non-executive Director of Wilmar International Limited (both companies are listed in Singapore). He is also a Non-executive Director (Independent) of IHH Healthcare Berhad (listed in Malaysia and Singapore).

Mr. Kuok had served as the Chairman of Shangri-La Asia Limited from April 2008 to August 2013 and remained as a Non-executive Director till June 2014. He was a Director of Shangri-La Hotel Public Company Limited from April 2009 to June 2014 (listed in Thailand).

Mr. Kuok is a graduate in Economics from the Nottingham University, the United Kingdom.

**Dr. Isidro FAINÉ CASAS**

*Non-executive Director and Member of the Nomination Committee*

Dr. Fainé, aged 74, was appointed a Director in 2009.

Dr. Fainé is the Chairman of the Board of trustees of the Caixa d'Estalvis i Pensions de Barcelona "la Caixa" Banking Foundation ("**la Caixa**" **Banking Foundation**).

Dr. Fainé is the Chairman of Criteria Caixa, S.A. Sociedad Unipersonal ("**Criteria Caixa**"). Criteria Caixa is a non-listed holding company fully controlled by the "la Caixa" Banking Foundation, which manages all of the group's shareholdings in strategic sectors, including financial, energy, infrastructure, services and real estate. Within financial sector, it manages a controlling stake in CaixaBank, S.A., the leading financial group in the Spanish retail banking market.

Dr. Fainé currently holds chairmanships and directorships in other listed companies, where "Criteria Caixa Group" has an interest, as follows:

- (i) Vice Chairman of Telefónica, S.A. (integrated operator in the telecommunication sector, listed in Spain);
- (ii) Board Member of Suez Environnement Company, S.A. (an expert group in water and waste management, listed in France and Brussels); and
- (iii) Chairman of Gas Natural SDG, S.A. (a leading group in the energy sector, pioneering in gas and electricity integration, listed in Spain).

Dr. Fainé was the Second Vice Chairman of Sociedad General de Aguas de Barcelona, S.A. He also was the First Vice Chairman of Repsol, S.A. (listed in Spain) until September 2016, a Director of Grupo Financiero Inbursa, S.A.B. de C.V. (listed in Mexico) until 2011 and a Board Member of Banco BPI, S.A. (listed in Portugal) until October 2016. Dr. Fainé was Chairman of Abertis Infraestructuras, S.A. until 11 May 2009 when he was appointed the First Vice Chairman, position that he held until 17 February 2015. Dr. Fainé remained as Director of the company until 15 May 2015, when he ceased on his position in Abertis Infraestructuras, S.A..



Dr. Fainé is a Member of the Royal Academy of Economics and Finance and of the Royal Academy of Doctorate Holders, Chairman of the Spanish Confederation of Savings Banks (CECA), Chairman of the European Savings Banks Group (ESBG) and Deputy Chairman of the World Savings Banks Institute (WSBI). He is also Chairman of the Spanish Confederation of Directors and Executives (CEDE), the Spanish Chapter of the Club of Rome and the *Círculo Financiero*.

Dr. Fainé began his professional banking career as Investment Manager for Banco Atlántico in 1964, later becoming General Manager of Banco de Asunción in Paraguay in 1969. On his return to Barcelona, he held various managerial posts in financial entities: Head of Human Resources at Banca Riva y García (1973), CEO of Banca Jover (1974) and CEO of Banco Unión (1978).

Dr. Fainé joined “la Caixa” and was appointed Deputy Executive General Manager in 1982. He was appointed CEO in 1999 and was further appointed Chairman of Caixa d’Estalvis i Pensions de Barcelona “la Caixa” from June 2007 to June 2014. In June 2014, “la Caixa” becomes “la Caixa” Banking Foundation, in compliance with the Savings Banks and Banking Foundations Law of 27 December, 2013. He has been a member of the Board of Directors of CaixaBank, S.A. since 2000 and appointed as the Chairman of its Board in 2009 until June 2016.

Among other academic and professional qualifications, Dr. Fainé holds a PhD in Economics, an International Senior Managers Program certificate in Business Administration from Harvard University, and a Diploma in Executive Management from the IESE Business School.

**Dr. Peter LEE Ka-kit, GBS, DBA (Hon), JP**

*Non-executive Director and Member of the Remuneration Committee*

Dr. Lee, aged 53, was appointed a Director in 2013. Dr. Lee is a Member of the Standing Committee of the 12th National Committee of CPPCC. He is the Vice Chairman of Henderson Land Development Company Limited and Henderson Investment Limited, both of which are listed public companies, as well as Henderson Development Limited. He is also a Non-executive Director of The Hong Kong and China Gas Company Limited.

Dr. Lee has been appointed as a Justice of the Peace by HKSARG and awarded an Honorary University Fellowship by The University of Hong Kong since 2009. He was awarded an Honorary Degree of Doctor of Business Administration by Edinburgh Napier University in July 2014. He was awarded the Gold Bauhinia Star (GBS) in 2015 by HKSARG. He has been appointed Council Member of Hong Kong Trade Development Council for two years from 2016. He was educated in the United Kingdom.

**Mr. Adrian David LI Man-kiu, MA (Cantab), MBA, LPC, JP**

*Executive Director & Deputy Chief Executive*

Mr. Li, aged 43, was appointed a Director in 2014. He first joined BEA in 2000 as General Manager & Head of Corporate Banking Division. In April 2009, he was appointed Deputy Chief Executive for Hong Kong Business, assisting the Chief Executive in the overall management and control of the Group. He serves as a Director of several members of the Group, and sits on various board committees of BEA and its Group members.

Mr. Li is currently an Independent Non-executive Director of three listed companies under the Sino Group (Sino Land Company Limited, Tsim Sha Tsui Properties Limited, and Sino Hotels (Holdings) Limited), China State Construction International Holdings Limited, and COSCO SHIPPING Ports Limited (formerly known as COSCO Pacific Limited), and is a Non-executive Director of The Berkeley Group Holdings plc (listed in London). He also serves as a Member of the International Advisory Board of Abertis Infraestructuras, S.A. (listed in Spain). He was previously an Alternate Director of AFFIN Holdings Berhad (listed in Malaysia), an Alternate Independent Non-executive Director of San Miguel Brewery Hong Kong Limited and an Independent Non-executive Director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd (which is dual listed in Hong Kong and Shanghai).

Mr. Li is a Member of the Guangdong Provincial Committee of CPPCC and a Counsellor of the Hong Kong United Youth Association. He is also a Member of the MPF Industry Schemes Committee of the Mandatory Provident Fund Schemes Authority, a Trustee of The University of Hong Kong's occupational retirement schemes, an Advisory Committee Member of the Hong Kong Baptist University's School of Business and a Vice President of The Hong Kong Institute of Bankers' Council. Furthermore, he serves as a Member of the Election Committees responsible for electing the Chief Executive of the HKSAR and deputies of the HKSAR to the 12th National People's Congress ("NPC"). He also sits on the Judging Panel of the BAI Global Banking Innovation Awards. Mr. Li was previously a Member of the All-China Youth Federation and Deputy Chairman of the Beijing Youth Federation.

Mr. Li holds a Master of Management Degree from Kellogg School of Management, Northwestern University in the US, and a Master of Arts Degree and Bachelor of Arts Degree in Law from the University of Cambridge in Britain. He is a Member of The Law Society of England and Wales, and The Law Society of Hong Kong.

Mr. Li is the son of Dr. the Hon. Sir David LI Kwok-po, the nephew of Professor Arthur LI Kwok-cheung, Mr. Aubrey LI Kwok-sing and Mr. Stephen Charles LI Kwok-sze, and the brother of Mr. Brian David LI Man-bun.

**Mr. Brian David LI Man-bun, MA (Cantab), MBA, FCA, JP**  
*Executive Director & Deputy Chief Executive*

Mr. Li, aged 42, was appointed a Director in 2014. He joined the Group in 2002. He was General Manager & Head of Wealth Management Division of BEA from July 2004 to March 2009. In April 2009, he was appointed Deputy Chief Executive, primarily responsible for BEA's China and international businesses, and assisting the Chief Executive in the overall management and control of the Group. He serves as a Director of several members of the Group, and sits on various board committees of BEA and its Group members.

Mr. Li is currently an Independent Non-executive Director of Towngas China Company Limited, Hopewell Highway Infrastructure Limited and China Overseas Land & Investment Limited.

Mr. Li currently holds a number of public and honorary positions, including being a Member of the Twelfth National Committee of CPPCC, a Member of the Advisory Committee of the Securities and Futures Commission of Hong Kong, Chairman of the Traffic Accident Victims Assistance Advisory Committee of HKSARG, a Member of HKSARG Aviation Development and Three-runway System Advisory Committee and a Member of Market Development Committee, Financial Services Development Council of HKSARG.

He is a Member of the Hong Kong-Europe Business Council, a Member of the Hong Kong-Taiwan Business Co-operation Committee, a Member of Asian Financial Forum 2017 Steering Committee, a Committee Member of the Hong Kong Chapter, the Institute of Chartered Accountants in England and Wales (the "ICAEW"), a Member of the Inaugural Financial Consulting Committee for Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen, and a Council Member of The Hong Kong Management Association.

Mr. Li is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Full Member of the Treasury Markets Association. Mr. Li is also a Fellow of the ICAEW. He holds an MBA degree from Stanford University as well as MA and BA degrees from the University of Cambridge.

Mr. Li is the son of Dr. the Hon. Sir David LI Kwok-po, the nephew of Professor Arthur LI Kwok-cheung, Mr. Aubrey LI Kwok-sing and Mr. Stephen Charles LI Kwok-sze, and the brother of Mr. Adrian David LI Man-kiu.

**Dr. Daryl NG Win-kong, BA, MSc, DHL, JP**

*Independent Non-executive Director, Member of the Audit Committee, the Nomination Committee and the Risk Committee*

Dr. Ng, aged 38, was appointed a Director in 2015. He is currently an Executive Director of Sino Land Company Limited, Tsim Sha Tsui Properties Limited and Sino Hotels (Holdings) Limited.

Dr. Ng holds a Bachelor of Arts Degree in Economics, a Master Degree of Science in Real Estate Development from Columbia University in New York and an Honorary Doctor of Humane Letters Degree from Savannah College of Art and Design. He was awarded an Honorary University Fellowship by The Open University of Hong Kong in 2016.

Dr. Ng is a General Committee member of The Chamber of Hong Kong Listed Companies, a member of the Global Leadership Council of Columbia University in the City of New York, a member of the 10th Sichuan Committee of CPPCC, a member of the 12th Beijing Municipal Committee of CPPCC, a member of the 10th and 11th Committees of the All-China Youth Federation and the Deputy Chairman of the Chongqing Youth Federation. He is a trustee member of World Wide Fund for Nature Hong Kong, the Vice Chairman of Hong Kong United Youth Association, a member of the Social Welfare Advisory Committee, a member of the Executive Committee of Hong Kong Sheng Kung Hui Welfare Council Limited, a member of Friends of Hong Kong Association Limited, a co-opted member of the Community Care Fund Task Force of Commission on Poverty, a member of the Council for Sustainable Development, a member of the Court of the Hong Kong University of Science and Technology, a member of the Steering Committee on the Promotion of Electric Vehicles of HKSARG, a member of the Council of the University of Hong Kong, an Associate Member of the Central Policy Unit of HKSARG, a Council Member of The Hong Kong Management Association, a Council Member of the Hong Kong Committee for UNICEF and a member of NUS Medicine International Council (NIC) at the Yong Loo Lin School of Medicine of National University of Singapore. He is a Director of The Real Estate Developers Association of Hong Kong.

**Mr. Masayuki OKU, LL.B, LL.M, the Order of Industrial Service Merit Silver Tower**  
*Non-executive Director and Member of the Nomination Committee*

Mr. Oku, aged 72, was appointed a Director in 2015. He is Chairman of the Board of SMFG (listed in Japan and USA). He is an Independent Non-executive Director of Panasonic Corporation, Kao Corporation, Komatsu Ltd. and Chugai Pharmaceutical Co., Ltd., all of which are companies listed in Japan. Mr. Oku is also an Auditor of Nankai Electric Railway Co. Ltd. (listed in Japan).

Mr. Oku began his career in 1968 at The Sumitomo Bank, Limited. After engaging in the bank's key acquisitions and investments in the 1980's, he was transferred to New York and appointed General Manager of Chicago Branch in 1991. He returned to Tokyo in 1992, assumed the position of General Manager of the Corporate Planning Department, and was elected as a member of the Board of Directors of the bank in 1994. In 1999, Mr. Oku was appointed Secretary General of the Integration Strategy Committee of the bank, leading its merger process with The Sakura Bank, Limited, which culminated in the formation of SMBC in 2001. In 2003, he became Deputy President of SMBC, heading Corporate Banking and International Banking Units. In 2005, he was appointed President and CEO of SMBC and Chairman of the Board of SMFG, the holding company of SMBC. During his tenure as President and CEO of SMBC, he also served as Chairman of Japanese Bankers Association in 2007 and 2010. In April 2011, he resigned as President and CEO of SMBC to devote himself to his duties as Chairman of the Board of SMFG. Mr. Oku also served as Vice Chairman of Keidanren (Japan Business Federation) from 2011 to 2015.

Mr. Oku received his Bachelor of Law degree from Kyoto University in 1968 and his Master of Laws (LL.M) degree from Michigan Law School in 1975. He was awarded the Order of Industrial Service Merit Silver Tower by the Government of the Republic of Korea in 2009.

**Dr. the Hon. Rita FAN HSU Lai-tai, GBM, GBS, DSocSc, JP**  
*Independent Non-executive Director and Chairman of the Remuneration Committee*

Dr. Fan, aged 71, was appointed a Director in February 2016. She is currently an Independent Non-executive Director of China Overseas Land & Investment Limited, China Shenhua Energy Company Limited, COSCO SHIPPING Ports Limited (formerly known as COSCO Pacific Limited) and China COSCO Holdings Company Limited.

Dr. Fan is one of Hong Kong's best-known public figures and has an outstanding track record of community service. Dr. Fan was appointed to the Legislative Council from 1983 to 1992 and was a Member of the Executive Council from 1989 to 1992. She became the President of the Provisional Legislative Council in 1997, and has since been re-elected as the President of the First, Second and Third Legislative Council until 30 September 2008. Dr. Fan served as President of the legislature of HKSAR for 11 years.

In the lead-up to Hong Kong's reunification with China, Dr. Fan played a valuable role as a Member of the Preliminary Working Committee for the Preparatory Committee for HKSAR from 1993 to 1995 and of the Preparatory Committee for HKSAR from 1995 to 1997. She was elected as a Hong Kong Deputy to both the Ninth and Tenth sessions of the NPC between 1998 and 2008. She was also a Member of the Standing Committee of the Eleventh session of the NPC from 2008 to 2013 and is currently a Member of the Standing Committee of the Twelfth session of the NPC.

Outside the political arena, Dr. Fan is serving as the Chairman of Board of Management of the Endeavour Education Centre Limited, the Honorary President of the Hong Kong Breast Cancer Foundation, and the Honorary Patron of the Hong Kong Transplant Sports Association.

After graduating from St. Stephen's Girls' College, Dr. Fan studied at the University of Hong Kong, and was awarded a Bachelor degree in Science and a Master degree in Social Science. She was awarded Honorary Doctorate degrees in Social Science by the University of Hong Kong, the City University of Hong Kong and the Hong Kong Polytechnic University, and an Honorary Doctorate in Law from the China University of Political Science and Law of the People's Republic of China. Her record of public service was acknowledged by HKSARG through the award of the Gold Bauhinia Star in 1998 and Hong Kong's top award, the Grand Bauhinia Medal, in 2007.

**Mr. Meocre LI Kwok-wing, BCom, CPA**  
*Independent Non-executive Director, Member of the Audit Committee and the Risk Committee*

Mr. Li, aged 61, was appointed a Director in September 2016. He is the Chief Executive of Alpha Alliance Finance Holdings Limited.

Mr. Li was the Managing Partner of Arthur Andersen, one of the major international accounting firms, taking charge of its Hong Kong and China operations from September 1993 to February 1995. He was the Managing Director and Head of Corporate Finance of NatWest Securities Asia from March 1995 to March 1998. He was the Chief Executive of ICEA Finance Holdings Limited (from March 1998 to March 2002), an investment banking joint venture between The Industrial and Commercial Bank of China and BEA, prior to the company's becoming a wholly-owned subsidiary of BEA, which was subsequently renamed as Tung Shing Holdings Company Limited and disposed to SinoPac Securities (Cayman) Holdings Limited on 6 April 2016.

Mr. Li received a Bachelor of Commerce degree, with distinction, from University of Alberta, Canada. Upon graduation, he was awarded the Financial Executives Institute Silver Medal for "Highest Standing in Finance". He also earned a Postgraduate Management Diploma from the Harvard Business School, and is a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Li is an Independent Non-executive Director of BEA (China). He is also the chairman of its audit committee and a member of its connected transactions control committee and risk management committee.

**Dr. the Hon. Henry TANG Ying-yen** *GBM, GBS, JP*

*Independent Non-executive Director, Member of the Audit Committee, the Nomination Committee and the Remuneration Committee*

Dr. Tang, aged 64, was appointed a Director on 1 March 2017. He was the Chief Secretary for Administration of HKSARG from 2007 to 2011 and the Financial Secretary of HKSARG from 2003 to 2007. He served as a member of the Executive Council of Hong Kong from 1997 to 2011 and was a member of the Legislative Council of Hong Kong from 1991 to 1998.

Dr. Tang is a Standing Committee Member of CPPCC.

Dr. Tang received a Bachelor of Arts degree from the University of Michigan. In 1993, Dr. Tang was named Global Leader for Tomorrow by the World Economic Forum. In 1989, he won the Young Industrialist of Hong Kong award.

Dr. Tang is an Independent Non-executive Director of BEA (China). He is also chairman of its risk management committee and a member of its audit committee and remuneration & nomination committee.

**The Hon. CHAN Kin-por** *BBS, JP*

*Independent Non-executive Director, Member of the Audit Committee and the Risk Committee*

Mr. Chan, aged 62, was appointed a Director on 15 March 2017. He is currently a member of the Legislative Council (Insurance Functional Constituency) of HKSAR. Among other duties, he serves as Chairman of the Finance Committee of the Legislative Council (Insurance Functional Constituency).

Mr. Chan has extensive experience in the fields of banking and insurance. He is an Associate of The Chartered Insurance Institute (U.K.). He has become a member of the Munich Re China Advisory Board since 2009 after serving as the Chief Executive of the Munich Reinsurance Company — Hong Kong Branch for 4 years. Prior to these appointments, he had worked in various positions at one of the leading banks in Hong Kong for more than three decades and left as the Assistant General Manager and Head of its Insurance Group in 2005. He was also Chairman of the Chinese Insurance Association of Hong Kong from 1998 to 1999 and the Hong Kong Federation of Insurers from 2004 to 2005.

**Dr. Delman LEE** *BEng, DPhil*

*Independent Non-executive Director and Member of the Risk Committee*

Dr. Lee, aged 49, was appointed a Director on 21 March 2017. He is currently the President and Chief Technology Officer of TAL Apparel Limited. He is also a non-executive director of Tradelink Electronic Commerce Limited. He was a non-executive director of Luckytex (Thailand) Public Co. Ltd. (listed in Thailand).

Dr. Lee is a Council Member of The Hong Kong Productivity Council, a Council Member of The Hong Kong Management Association and the Vice Chairman of Sustainable Fashion Business Consortium. Dr. Lee possesses extensive experience in information technology and management in global operations. He also has a strong background in research.

Dr. Lee holds a doctorate from the University of Oxford and a Bachelor's degree in Electrical and Electronic Engineering from the Imperial College, London.

## SENIOR MANAGEMENT

**Mr. Adrian David LI Man-kiu**, MA (Cantab), MBA, LPC, JP  
*Executive Director & Deputy Chief Executive*

Biographical details are set out above under “Board of Directors”.

**Mr. Brian David LI Man-bun**, MA (Cantab), MBA, FCA, JP  
*Executive Director & Deputy Chief Executive*

Biographical details are set out above under “Board of Directors”.

**Mr. Samson LI Kai-cheong**, FCCA, CPA, FCIS, FCS, HKSI  
*Deputy Chief Executive & Chief Investment Officer*

Mr. Li, aged 56, joined BEA in 1987 as Chief Internal Auditor. He was promoted to Deputy Chief Executive & Chief Investment Officer in April 2009. Mr. Li is primarily responsible for BEA’s investment activities and treasury & broking operations including treasury markets. He is also a Director of various members of the Group and a Member of various committees appointed by the Board.

Mr. Li is a Fellow of The Hong Kong Institute of Chartered Secretaries, the Institute of Chartered Secretaries & Administrators, and The Association of Chartered Certified Accountants. In addition, he is an Associate of the Hong Kong Institute of Certified Public Accountants and a Member of the Hong Kong Securities and Investment Institute. Mr. Samson Li received his Professional Diploma in Accountancy from The Hong Kong Polytechnic University.

**Mr. TONG Hon-shing**, BSc, ACIB, FHKIB, FCIS, FCS  
*Deputy Chief Executive & Chief Operating Officer*

Mr. Tong, aged 57, joined BEA in 1975. He was promoted to Assistant General Manager in 1995 and to General Manager in 2000. He was General Manager & Head of Personal Banking Division from 2001 to March 2009. He was further promoted to Deputy Chief Executive and Chief Operating Officer in April 2009. Mr. Tong is primarily responsible for strategic planning and control, operations support, compliance, human resources, and corporate communications of BEA. He is also a Director of various members of the Group and a Member of various committees appointed by the Board. Mr. Tong is a Fellow of The Hong Kong Institute of Bankers, The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries & Administrators as well as an Associate of The Chartered Institute of Bankers. He holds a BSc from the University of Manchester.

## REGULATION AND SUPERVISION

### REGULATION AND SUPERVISION IN HONG KONG

*The following replaces the sub-section headed “Regulation and Supervision in Hong Kong — Principal Obligations of Licensed Banks — Capital Adequacy” under the section headed “Regulation and Supervision” included on pages 156 to 164 of the Original Offering Circular in its entirety.*

#### ***Capital Adequacy***

A licensed bank incorporated in Hong Kong must at all times maintain a CAR of at least 8.0%, calculated as the ratio (expressed as a percentage) of its capital base to its risk-weighted exposure as more fully described below. In relation to a licensed bank with subsidiaries, the HKMA may require the ratio to be calculated on a consolidated basis, or on both a consolidated and an unconsolidated basis, or on a consolidated basis only in respect of such subsidiaries of the licensed bank as may be specified by the HKMA. The HKMA may, after consultation with the licensed bank concerned, increase the ratio for any particular licensed bank. A licensed bank is under a duty to inform the HKMA immediately of a failure to maintain the required capital adequacy ratio and to provide the HKMA with such particulars as it may require. It is an indictable offence not to do so, and the HKMA is entitled to prescribe remedial action.

The capital base of a licensed bank is, broadly speaking but not limited to, all its paid-up capital and reserves, its profit and loss account including its current year’s profit or loss, together with perpetual and term subordinated debt meeting prescribed conditions, general provisions against doubtful debts subject to certain limitations and a portion of its latent reserves arising from the revaluation of long-term holdings of specified equity securities or its reserves on the revaluation of real property.

The risk-weighted exposure is determined by:

- (1) multiplying risk-weight factors to the book value of various categories of assets (including but not limited to notes and coins, Hong Kong government certificates of indebtedness and cash items in the course of collection);
- (2) multiplying the credit conversion factors to various off balance sheet items (including but not limited to direct credit substitutes, transaction-related contingencies, repurchase contracts, note issuance facilities and exchange rate contracts) to determine their credit equivalent amount;
- (3) aggregating the amounts determined pursuant to (1) and (2); and
- (4) subtracting from the amount determined pursuant to (3) the value of general provisions not included in the capital base of the licensed bank.

The capital adequacy standards described above are commonly known as Basel II. There are four approaches under Basel II to calculate credit risks, namely the basic approach, the standardised approach, foundation internal rating based approach and the advanced internal ratings based approach. Licensed banks in Hong Kong under Basel II can choose either one out of the four approaches, with the foundation internal rating based approach and advanced internal rating based approach requiring approval from the HKMA.

In December 2010 and January 2011, the Basel Committee issued further capital requirements designed to raise the quality, consistency and transparency of banks’ capital base and new global liquidity standards. These requirements are collectively known as Basel III. Among other things, Basel III will increase the minimum CAR requirements in relation to risk-weighted assets, with the common equity requirement rising from 2% to 4.5% and the Tier 1 capital requirements rising from 4% to 6%. The total minimum capital requirement remains unchanged at 8%. The Basel Committee

expects its member jurisdictions to begin the implementation of Basel III from 1 January 2013, with full implementation by 1 January 2019. The HKMA has taken steps to implement Basel III in Hong Kong in accordance with the timetable of the Basel Committee and to effect the first phase of Basel III implementation starting January 2013.

The Banking Ordinance was amended in 2012 to facilitate the implementation of the Basel III capital and disclosure requirements in Hong Kong. More specifically, the amendments made to the Banking Ordinance empowered the HKMA to:

- (a) prescribe capital requirements for authorised institutions incorporated in Hong Kong for authorised institutions incorporated in Hong Kong or elsewhere; and
- (b) issue and approve codes of practice for the purpose of providing guidance in respect of the requirements.

The Banking (Capital) (Amendment) Rules 2012 came into effect on 1 January 2013, with the requirements being phased in over six years to achieve full implementation by 1 January 2019. These include:

- the imposition of three minimum risk-weighted capital ratios, namely CET1 capital ratio, Tier 1 capital ratio and total capital ratio, with gradual phasing in of the minimum capital requirements over three years commencing 1 January 2013;
- the introduction of two capital buffers, namely the capital conservation buffers and countercyclical capital buffer, to be phased in sequentially from 1 January 2016 to 1 January 2019;
- the introduction of capital requirement for counterparty risk effect from 1 January 2013; and
- capital instruments issued on or after 1 January 2013 must meet all of the Basel III criteria to qualify as regulatory capital. Capital instruments prior to this date that no longer qualify for inclusion in capital base will be phased out during the 10-year period commencing 1 January 2013.

### ***The Hong Kong “Resolution Regime”***

With effect from 30 June 2013, the Banking (Disclosure) Rules have been amended to implement Basel III capital and disclosure standards.

In early 2014, the government of Hong Kong launched the initial stage of a public consultation on establishing a “resolution regime” for authorised institutions and other financial institutions in Hong Kong. A second consultation was launched in early 2015. The Response Paper was published concluding the two consultations and summarising the key comments received and the authorities’ responses and proposals in relation to those comments. The Response Paper also discusses certain further issues which remain under development internationally. On 22 June 2016, the Financial Institutions (Resolution) Bill was passed by the Legislative Council of Hong Kong and enacted as the Financial Institutions (Resolution) Ordinance (No. 23 of 2016) on 30 June 2016 but has not yet commenced operation as at the date of this Offering Circular. The Financial Institutions (Resolution) Ordinance will come into operation on a day to be appointed by the Secretary for Financial Services and the Treasury of the Hong Kong Special Administrative Region Government by notice published in the Hong Kong Government Gazette. A two-month consultation on a set of proposed regulations relating to protected arrangements under the Financial Institutions (Resolution) Ordinance was launched on 22 November 2016 and a consultation conclusion was released on 6 April 2017 setting out the relevant authorities’ responses to the comments received and the proposals to table the proposed regulations before the Legislative Council of Hong Kong in the second quarter of 2017.



The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution in Hong Kong. In particular, it has been envisaged that subject to certain safeguards, the relevant resolution authority would be provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution, including but not limited to, powers to write off or convert all or a part of the principal amount of, or interest on, the Capital Securities, and powers to amend or alter the contractual provisions of the Capital Securities. Although the Financial Institutions (Resolution) Ordinance has not commenced operation as at the date of this First Supplementary Offering Circular, Securityholders will be subject to and bound by the Financial Institutions (Resolution) Ordinance once it comes into operation.

## OTHER SUPPLEMENTAL INFORMATION

### AUTHORISATIONS

1. BEA has obtained all necessary consents, approvals and authorisations as may be required in connection with the issue and performance of the Capital Securities, including, but not limited to, approval by the HKMA. The issue of the Capital Securities was duly authorised by resolutions of the Board of Directors of BEA dated 26 April 2017.

### NO MATERIAL ADVERSE CHANGE

1. Except as disclosed in this First Supplementary Offering Circular, there has been no significant change in the financial or trading position of BEA or of the Group since 31 December 2016 and no material adverse change in the financial position or prospects of BEA or of the Group since 31 December 2016.

### FATCA WITHHOLDING

1. The following replaces the sub-section headed “*FATCA Withholding*” under the section headed “*Taxation*” on page 170 of the Original Offering Circular.

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Hong Kong) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Capital Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Capital Securities, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Capital Securities, such withholding would not apply prior to 1 January 2019. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Capital Securities, no person will be required to pay additional amounts as a result of the withholding.

### SELLING RESTRICTIONS

1. The following shall be added after the heading “*Selling Restrictions*” under the section headed “*Subscription and Sale*” on page 175 of the Original Offering Circular.

THE CAPITAL SECURITIES ARE OFFERED TO PROFESSIONAL INVESTORS ONLY AND ARE NOT SUITABLE FOR RETAIL INVESTORS. INVESTORS SHOULD NOT PURCHASE THE CAPITAL SECURITIES IN THE PRIMARY OR SECONDARY MARKETS UNLESS THEY ARE PROFESSIONAL INVESTORS. THE CAPITAL SECURITIES ARE COMPLEX FINANCIAL INSTRUMENTS AND ARE NOT A SUITABLE OR APPROPRIATE INVESTMENT FOR ALL INVESTORS. IN PARTICULAR, HOLDERS OF THE CAPITAL SECURITIES MAY BE REQUIRED TO ABSORB LOSSES UNDER CERTAIN CIRCUMSTANCES. INVESTING IN THE CAPITAL SECURITIES INVOLVES RISKS. SEE “*INVESTMENT CONSIDERATIONS*” IN THE ORIGINAL OFFERING CIRCULAR, AS SUPPLEMENTED AND AMENDED BY THIS FIRST SUPPLEMENTARY OFFERING CIRCULAR.

2. The sub-section headed “*Selling Restrictions — European Economic Area*” under the section headed “*Subscription and Sale*” on page 176 of the Original Offering Circular shall be deleted in its entirety.

3. The following shall be added at the end of the section headed “*Subscription and Sale*” on page 179 of the Original Offering Circular.

### **Belgium**

The Capital Securities may not be distributed in Belgium by way of an offer to the public, as defined in Article 3 §1 of the Belgian Law of 16 June 2006 on public offerings of investment instruments and the admission of investment instruments to trading on a regulated market, as amended (the “**Belgian Prospectus Law**”), save in those circumstances set out in Article 3 §§2-4 of the Belgian Prospectus Law.

The placement is exclusively conducted under applicable private placement exemptions and therefore it has not been and will not be notified to, and the Offering Circular or any other offering or marketing material relating to the Capital Securities has not been and will not be approved by, the Belgian Financial Services and Markets Authority (“Autorité des services et marchés financiers/Autoriteit voor financiële diensten en markten”) (the “**FSMA**”).

Accordingly, the placement may not be advertised and each of the Dealers represents and agrees that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Capital Securities and that it has not distributed, and will not distribute, any memorandum, information circular, brochure or any similar documents, directly or indirectly, to any individual or legal entity in Belgium other than:

- (i) qualified investors, as defined in Article 10 of the Belgian Prospectus Law;
- (ii) investors required to invest a minimum of € 100,000 (per investor and per transaction);

and in any other circumstances set out in Article 3 §§2-4 of the Belgian Prospectus Law.

This Offering Circular has been issued only for the personal use of the above investors and exclusively for the purpose of the placement of Capital Securities. Accordingly, the information contained therein may not be used for any other purpose nor disclosed to any other person in Belgium.

### **Luxembourg**

Neither this Offering Circular nor any other offering material or information relating to offers or sales of the Capital Securities have been submitted to or approved by or will be submitted for approval to the Luxembourg Financial Sector Supervisory Authority (Commission de Surveillance du Secteur Financier) (the “**CSSF**”) and offers or sales of the Capital Securities have not been approved by the CSSF. Offers or sales of the Capital Securities are not directed, directly or indirectly, to the public in Luxembourg, and this Offering Circular and any other offering document, circular, prospectus, form of application, advertisement, communication or other material may not be distributed in Luxembourg, other than in circumstances set out in article 5(2) of the Luxembourg law of 10 July 2005 on prospectuses, as amended.

### **Switzerland**

The Capital Securities may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Capital Securities constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland, and neither this Offering Circular nor any other offering or marketing material relating to the Capital Securities may be publicly distributed or otherwise made publicly available in Switzerland.

## **The British Virgin Islands**

Each Manager has represented, warranted and agreed that with respect to offers or sales of the Capital Securities, that it has not and will not make any invitation to the public in the British Virgin Islands to purchase the Capital Securities and the Capital Securities are not being offered or sold and may not be offered or sold, directly or indirectly, in the British Virgin Islands, except as otherwise permitted by British Virgin Islands law.

This Offering Circular does not constitute, and there will not be, an offering of the Capital Securities to any person in the British Virgin Islands.

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