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The Bank of East Asia, Limited

東亞銀行有限公司

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

ANNOUNCEMENT OF 2017 FINAL RESULTS

SUMMARY OF RESULTS

The Board of Directors of the Bank is pleased to announce the audited results (Note 1(a)) of the Group for the year ended 31st December, 2017. This financial report, which has been reviewed by the Bank's Audit Committee, is prepared on a basis consistent with the accounting policies and methods adopted in the 2017 annual accounts.

Consolidated Income Statement

		2017	2016
	Notes	HK\$ Mn	Restated HK\$ Mn
CONTINUING OPERATIONS			
Interest income	3	21,629	20,363
Interest expense	4	(9,797)	(9,265)
Net interest income		<u>11,832</u>	<u>11,098</u>
Fee and commission income	5	3,557	3,485
Fee and commission expense		(1,064)	(1,028)
Net fee and commission income		2,493	2,457
Net trading profits	6	526	480
Net result from financial instruments designated at fair value through profit or loss	7	35	(92)
Net hedging loss	8	(2)	(22)
Net insurance revenue	9(a)	687	415
Other operating income	10	382	378
Non-interest income		<u>4,121</u>	<u>3,616</u>
Operating income		15,953	14,714
Operating expenses	11	(8,067)	(8,206)
Operating profit before impairment losses		<u>7,886</u>	<u>6,508</u>
Impairment losses on loans and receivables		(1,742)	(3,462)
Impairment losses on available-for-sale financial assets		(2)	(1)
Impairment losses on assets held for sale		(63)	-
Impairment losses on intangible assets	12	(650)	-
Impairment losses		<u>(2,457)</u>	<u>(3,463)</u>
Operating profit after impairment losses		5,429	3,045
Net profit on sale of held-to-maturity investments		6	10
Net profit on sale of available-for-sale financial assets	13	1,057	92
Net loss on repurchase of debt issued		-	(6)
Net profit on sale of disposal groups and assets held for sale		183	99
Net profit on disposal of subsidiaries/associates		2	-
Net (loss)/gain on disposal of fixed assets	14	(22)	859
Valuation gains on investment properties		522	62
Share of profits less losses of associates		388	431
Profit for the year before taxation		<u>7,565</u>	<u>4,592</u>
Income tax	15	(1,195)	(1,067)
Profit for the year from continuing operations		<u>6,370</u>	<u>3,525</u>
DISCONTINUED OPERATIONS			
Profit from discontinued operations	27	4,145	304
Profit for the year		<u>10,515</u>	<u>3,829</u>

Consolidated Income Statement (Continued)

	<u>2017</u>	<u>2016</u>
<i>Notes</i>	HK\$ Mn	HK\$ Mn
Attributable to:		
Owners of the parent		
- from continuing operations	6,298	3,505
- from discontinued operations	<u>3,049</u>	<u>218</u>
	9,347	3,723
Non-controlling interests	<u>1,168</u>	<u>106</u>
Profit for the year	<u>10,515</u>	<u>3,829</u>
Earnings per share		
Basic	<i>1(b)</i>	
- profit for the year	HK\$3.21	HK\$1.21
- profit from continuing operations	HK\$2.09	HK\$1.12
Diluted	<i>1(b)</i>	
- profit for the year	HK\$3.20	HK\$1.21
- profit from continuing operations	HK\$2.09	HK\$1.12
Dividends per share	HK\$1.28	HK\$0.56

Consolidated Statement of Comprehensive Income

	<u>2017</u>	<u>2016</u>
<i>Notes</i>	HK\$ Mn	HK\$ Mn
Net profit	<u>10,515</u>	<u>3,829</u>
Other comprehensive income for the year:		
Items that will not be reclassified to income statement:		
Premises:		
- unrealised surplus on revaluation of premises	44	141
Items that may be reclassified subsequently to income statement:		
Premises:		
- deferred taxes	1	10
Available-for-sale investment revaluation reserve:		
- fair value changes recognised to equity	1,491	12
- fair value changes reclassified (to)/from income statement:		
- on impairment and amortisation	-	27
- on disposal	13 (1,320)	(136)
- deferred taxes	(65)	73
Share of changes in equity of associates	(54)	147
Exchange differences arising from translation of accounts/disposal of overseas branches, subsidiaries and associates	<u>2,818</u>	<u>(2,144)</u>
Other comprehensive income	<u>2,915</u>	<u>(1,870)</u>
Total comprehensive income	<u>13,430</u>	<u>1,959</u>
Total comprehensive income attributable to:		
Owners of the parent	12,206	1,884
Non-controlling interests	<u>1,224</u>	<u>75</u>
	<u>13,430</u>	<u>1,959</u>

Consolidated Statement of Financial Position

		2017	2016
		HK\$ Mn	Restated HK\$ Mn
ASSETS			
Cash and balances with banks and other financial institutions		60,670	65,720
Placements with and advances to banks and other financial institutions		53,609	44,052
Trade bills		13,909	11,939
Trading assets	16	6,956	4,404
Financial assets designated at fair value through profit or loss	17	4,169	3,554
Positive fair value of derivatives	23	11,335	8,938
Loans and advances to customers	18	470,339	450,445
Available-for-sale financial assets	19	120,325	110,491
Held-to-maturity investments	20	9,798	5,663
Investments in associates		9,429	6,011
Fixed assets		12,750	11,990
- Investment properties		5,107	4,467
- Other properties and equipment		7,643	7,523
Goodwill and intangible assets		1,959	2,639
Deferred tax assets		602	785
Other assets	21	33,092	39,075
Total Assets		<u>808,942</u>	<u>765,706</u>
EQUITY AND LIABILITIES			
Deposits and balances of banks and other financial institutions		26,981	26,475
- Designated at fair value through profit or loss		3,110	-
- At amortised cost		23,871	26,475
Deposits from customers		571,684	535,789
Trading liabilities		11	50
Negative fair value of derivatives	23	12,077	7,982
Certificates of deposit issued		36,466	28,857
- Designated at fair value through profit or loss		11,655	18,106
- At amortised cost		24,811	10,751
Current taxation		1,160	1,605
Debt securities issued		1,007	7,154
- Designated at fair value through profit or loss		851	418
- At amortised cost		156	6,736
Deferred tax liabilities		551	462
Other liabilities		45,378	50,088
Loan capital – at amortised cost		12,413	20,608
Total Liabilities		<u>707,728</u>	<u>679,070</u>
Share capital	1(c)	37,527	35,490
Reserves	24	51,955	42,941
Total equity attributable to owners of the parent		89,482	78,431
Additional equity instruments		8,894	5,016
Non-controlling interests		2,838	3,189
Total Equity		<u>101,214</u>	<u>86,636</u>
Total Equity and Liabilities		<u>808,942</u>	<u>765,706</u>

Consolidated Statement of Changes in Equity

	Share capital	Capital reserve – staff share options issued	Exchange revaluation reserve	Investment revaluation reserve	Revaluation reserve of bank premises	Capital reserve	General reserve	Other reserves ³	Retained profits	Total	Additional equity instruments	Non-controlling interests	Total equity
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1 st January, 2017	35,490	124	(2,275)	1,359	1,728	230	14,035	5,293	22,447	78,431	5,016	3,189	86,636
Changes in equity													
Profit for the year	-	-	-	-	-	-	-	-	9,347	9,347	-	1,168	10,515
Other comprehensive income	-	-	2,762	106	45	-	-	(54)	-	2,859	-	56	2,915
Total comprehensive income	-	-	2,762	106	45	-	-	(54)	9,347	12,206	-	1,224	13,430
Issue of additional equity instruments ¹	-	-	-	-	-	-	-	-	-	-	3,878	-	3,878
Shares issued in lieu of dividend (Note 1(c))	1,927	-	-	-	-	-	-	-	-	1,927	-	-	1,927
Shares issued under Staff Share Option Schemes (Note 1(c))	93	-	-	-	-	-	-	-	-	93	-	-	93
Equity settled share-based transaction	-	36	-	-	-	-	-	-	-	36	-	-	36
Transfer	17	(25)	-	-	(16)	-	25	(308)	307	-	-	-	-
Dividends declared or approved during the year	-	-	-	-	-	-	-	-	(3,211)	(3,211)	-	(1,422)	(4,633)
Change of ownership in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(18)	(18)
Decrease in non-controlling interests arising from capital reduction of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(135)	(135)
At 31 st December, 2017	37,527	135	487	1,465	1,757	230	14,060	4,931	28,890	89,482	8,894	2,838	101,214
At 1 st January, 2016	33,815	90	(162)	1,383	1,639	230	13,953	4,666	21,799	77,413	5,016	3,212	85,641
Changes in equity													
Profit for the year	-	-	-	-	-	-	-	-	3,723	3,723	-	106	3,829
Other comprehensive income	-	-	(2,113)	(24)	151	-	-	147	-	(1,839)	-	(31)	(1,870)
Total comprehensive income	-	-	(2,113)	(24)	151	-	-	147	3,723	1,884	-	75	1,959
Shares issued in lieu of dividend (Note 1(c))	1,663	-	-	-	-	-	-	-	-	1,663	-	-	1,663
Shares issued under Staff Share Option Schemes (Note 1(c))	11	-	-	-	-	-	-	-	-	11	-	-	11
Equity settled share-based transaction	-	35	-	-	-	-	-	-	-	35	-	-	35
Transfer	1	(1)	-	-	(62)	-	82	489	(509)	-	-	-	-
Dividends declared or approved during the year	-	-	-	-	-	-	-	-	(2,560)	(2,560)	-	(60)	(2,620)
Purchase of interests in businesses from non-controlling interests investors	-	-	-	-	-	-	-	(9)	-	(9)	-	7	(2)
Buy back of Hybrid Tier 1 capital instruments ²	-	-	-	-	-	-	-	-	(6)	(6)	-	(45)	(51)
At 31 st December, 2016	35,490	124	(2,275)	1,359	1,728	230	14,035	5,293	22,447	78,431	5,016	3,189	86,636

1. During the year, the Bank issued HK\$3,892 million (USD500 million) undated non-cumulative subordinated Additional Tier 1 capital securities ("AT1"). Direct issuance costs of HK\$14 million are accounted for as a deduction from the equity instruments.
2. In 2016, the Bank bought back HK\$45 million Hybrid Tier 1 capital instruments which are classified as non-controlling interests in the consolidated financial statements. The purchase premium of HK\$6 million paid in excess of the carrying amount of the non-controlling interests acquired was charged to retained profits.
3. Other reserves include statutory reserve and other reserves.

Consolidated Cash Flow Statement

	Notes	2017 HK\$ Mn	2016 HK\$ Mn
OPERATING ACTIVITIES			
Profit for the year before taxation		11,724	4,957
Adjustments for:			
Charge for impairment losses on loans and receivables		1,742	3,465
Charge for impairment losses on intangible assets		650	-
Charge for impairment losses on available-for-sale financial assets		2	1
Charge for impairment losses on assets held for sale		63	-
Share of profits less losses of associates		(388)	(431)
Net profit on sale of held-to-maturity investments		(6)	(10)
Net profit on sale of available-for-sale financial assets		(1,057)	(96)
Net profit on disposal of subsidiaries and associates		(2)	-
Net profit on sale of disposal groups and assets held for sale		(183)	(99)
Net profit on sale of discontinued operations		(4,084)	-
Net loss/(gain) on disposal of fixed assets		22	(859)
Interest expense on certificates of deposit, debt securities and loan capital issued		1,531	1,582
Depreciation on fixed assets		466	500
Dividend income from available-for-sale financial assets		(34)	(36)
Amortisation of intangible assets	11	32	32
Amortisation of premium/discount on certificates of deposit, debt securities and loan capital issued		309	170
Revaluation gains on certificates of deposit, debt securities and loan capital issued		(169)	(152)
Valuation gains on investment properties		(522)	(63)
Equity settled share-based payment expenses	11	36	35
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL		10,132	8,996
(Increase)/decrease in operating assets:			
Cash and balances with banks with original maturity beyond three months		(953)	(1,207)
Placements with and advances to banks and other financial institutions with original maturity beyond three months		7,000	9,585
Trade bills		(1,970)	7,593
Trading assets		(3,002)	491
Financial assets designated at fair value through profit or loss		(615)	782
Positive fair value of derivatives		(2,397)	(2,733)
Loans and advances to customers		(21,892)	(14,460)
Advances to banks and other financial institutions		-	31
Held-to-maturity debt securities		(3,475)	469
Available-for-sale debt securities		(5,447)	(19,600)
Other assets		2,737	(4,275)
Increase/(decrease) in operating liabilities:			
Deposits and balances of banks and other financial institutions		506	(5,651)
Deposits from customers		35,895	(4,954)
Trading liabilities		(39)	(839)
Negative fair value of derivatives		4,095	1,073
Other liabilities		(4,067)	4,897
Exchange adjustments		(2,382)	2,456
NET CASH INFLOW/(OUTFLOW) FROM OPERATIONS		14,126	(17,346)
Income tax paid			
Hong Kong profits tax paid		(812)	(565)
Outside Hong Kong profits tax paid		(649)	(832)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		12,665	(18,743)

	2017	2016
Notes	HK\$ Mn	HK\$ Mn
INVESTING ACTIVITIES		
Dividends received from associates	83	76
Dividends received from available-for-sale equity securities	34	36
Purchase of equity securities	(4,723)	(3,984)
Proceeds from sale of equity securities	5,328	3,608
Purchase of fixed assets	(409)	(448)
Proceeds from disposal of other properties and equipment	27	1,142
Proceeds from disposal of investment properties	-	624
Proceeds from sale of disposal groups and assets held for sale	653	746
Proceeds from sale of discontinued operations	5,947	-
Increase of shareholding in associates	(2,612)	-
Change of ownership in subsidiaries	(18)	-
Decrease in non-controlling interests arising from capital reduction of a subsidiary	(135)	-
Purchase of interests in businesses from non-controlling interests investors	-	7
NET CASH GENERATED FROM INVESTING ACTIVITIES	4,175	1,807
FINANCING ACTIVITIES		
Ordinary dividends paid	(2,106)	(468)
Distribution to Hybrid/Additional Tier 1 issue holders	2(c) (600)	(489)
Issue of ordinary share capital	1(c) 93	11
Issue of additional equity instruments	3,892	-
Issue of certificates of deposit	74,007	40,284
Issue of debt securities	1,367	695
Issue of loan capital	-	3,871
Redemption of Hybrid Tier 1 issued	-	(51)
Redemption of certificates of deposit issued	(67,055)	(48,325)
Redemption of debt securities issued	(7,617)	(7,119)
Redemption of loan capital	(8,580)	-
Interest paid on certificates of deposit issued	(663)	(499)
Interest paid on debt securities issued	(106)	(205)
Interest paid on loan capital	(920)	(921)
NET CASH USED IN FINANCING ACTIVITIES	(8,288)	(13,216)
NET INCREASE/(DECREASE) IN INCREASE IN CASH AND CASH EQUIVALENTS	8,552	(30,152)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	75,841	110,966
Effect of foreign exchange rate changes	5,587	(4,973)
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	89,980	75,841
Cash flows from operating activities included:		
Interest received	21,300	20,756
Interest paid	10,423	9,725
Dividend received	79	75

Notes to the Financial Statements

1. (a) The financial information relating to the years ended 31st December, 2017 and 2016 included in this announcement of 2017 final results do not constitute the Group's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31st December, 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31st December, 2017 in due course.

The Bank's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

- (b) (i) The calculation of basic earnings per share is based on the consolidated profit for the year and profit from continuing operations attributable to owners of the parent of HK\$8,747 million and HK\$5,698 million (2016: HK\$3,228 million and HK\$3,010 million) respectively after the distribution of HK\$600 million (2016: HK\$489 million) to Hybrid/Additional Tier 1 issue holders and deduction of nil (2016: HK\$6 million) premium paid for partial bought back of Hybrid Tier 1 capital instruments, and on the weighted average of 2,728 million (2016: 2,678 million) ordinary shares outstanding during the year.
- (ii) The calculation of diluted earnings per share is based on the consolidated profit for the year and profit from continuing operations attributable to owners of the parent of HK\$8,747 million and HK\$5,698 million (2016: HK\$3,228 million and HK\$3,010 million) respectively after the distribution of HK\$600 million (2016: HK\$489 million) to Hybrid/Additional Tier 1 issue holders and deduction of nil (2016: HK\$6 million) premium paid for partial bought back of Hybrid Tier 1 capital instruments, and on 2,730 million (2016: 2,678 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

(c) Share capital

Movement of the Bank's ordinary shares is set out below:

	2017		2016	
	No. of shares	HK\$ Mn	No. of shares	HK\$ Mn
Ordinary shares, issued and fully paid:				
At 1 st January	2,703	35,490	2,641	33,815
Shares issued under Staff Share Option Schemes	3	93	-	11
Transfer of the fair value of options from capital reserve – share options issued	-	17	-	1
Shares issued in lieu of dividend	59	1,927	62	1,663
At 31 st December	<u>2,765</u>	<u>37,527</u>	<u>2,703</u>	<u>35,490</u>

2. Dividends

(a) Dividends attributable to the year

	<u>2017</u> HK\$ Mn	<u>2016</u> HK\$ Mn
Interim dividend declared and paid of HK\$0.68 per share on 2,726 million shares (2016: HK\$0.28 per share on 2,684 million shares)	1,854	751
Second interim dividend paid in respect of the previous financial year on shares issued under the share option schemes subsequent to the end of the reporting period and before the close of the Register of Members of the Bank, of HK\$0.28 per share (2016: HK\$0.50 per share)	-	-
Second interim dividend of HK\$0.60 per share on 2,765 million shares (2016: HK\$0.28 per share on 2,703 million shares)	<u>1,659</u>	<u>757</u>
	<u>3,513</u>	<u>1,508</u>

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

(b) Dividends attributable to the previous financial year, approved and paid during the year

	<u>2017</u> HK\$ Mn	<u>2016</u> HK\$ Mn
Second interim dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.28 per share on 2,703 million shares (2016: HK\$0.50 per share on 2,641 million shares)	<u>757</u>	<u>1,320</u>

(c) Distribution to holders of Hybrid/Additional Tier 1 capital instruments

	<u>2017</u> HK\$ Mn	<u>2016</u> HK\$ Mn
Interest paid or payable on the Hybrid Tier 1 capital instruments	211	211
Amount paid on the Additional Tier 1 capital instruments	<u>389</u>	<u>278</u>
	<u>600</u>	<u>489</u>

3. Interest Income

	<u>2017</u> HK\$ Mn	<u>2016</u> HK\$ Mn
CONTINUING OPERATIONS		
Securities classified as held-to-maturity or available-for-sale	3,022	2,603
Trading assets	164	134
Financial assets designated at fair value through profit or loss	174	129
Loans, deposits with banks and financial institutions, and trade bills	<u>18,269</u>	<u>17,497</u>
	<u>21,629</u>	<u>20,363</u>

The above included HK\$351 million (2016: HK\$404 million) interest income accrued on impaired financial assets which includes unwinding of discount on loan impairment losses of HK\$191 million (2016: HK\$144 million) for the year ended 31st December, 2017.

The above included HK\$21,509 million (2016: HK\$20,396 million) interest income, before hedging effect, for financial assets that are not recognised at fair value through profit or loss.

For the transactions where interest rate risk is hedged, the periodic 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.

4. Interest Expense

	2017 <u>HK\$ Mn</u>	2016 <u>HK\$ Mn</u>
CONTINUING OPERATIONS		
Customer deposits, deposits of banks and other financial institutions		
– at amortised cost	8,341	7,887
– designated at fair value through profit or loss	3	-
Certificates of deposit and debt securities issued		
– at amortised cost	519	364
– designated at fair value through profit or loss	185	236
Subordinated notes carried at amortised cost	745	776
Other borrowings	4	2
	<u>9,797</u>	<u>9,265</u>

The above included HK\$9,700 million (2016: HK\$9,205 million) interest expense, before hedging effect, for financial liabilities that are not recognised at fair value through profit or loss.

For the transactions where interest rate risk is hedged, the periodic 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 first netted together and then combined with the interest expense from the corresponding financial liabilities.

5. Fee and Commission Income

Fee and commission income arises from the following services:

	2017 <u>HK\$ Mn</u>	2016 Restated <u>HK\$ Mn</u>
CONTINUING OPERATIONS		
Credit cards	1,012	1,003
Loans, overdrafts and guarantees	706	733
Other retail banking services	400	324
Trade finance	316	338
Securities and brokerage	281	215
Trust and other fiduciary activities	263	241
Others	579	631
	<u>3,557</u>	<u>3,485</u>

of which:

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

	2,523	2,476
Fee income	3,557	3,485
Fee expenses	(1,034)	(1,009)

6. Net Trading Profits

	<u>2017</u>	<u>2016</u>
	HK\$ Mn	HK\$ Mn
CONTINUING OPERATIONS		
Loss on dealing in foreign currencies and funding swaps	(1,180)	(230)
Profit/(Loss) on trading securities	755	(135)
Net gain on derivatives	906	806
Dividend income from listed trading securities	45	39
	<u>526</u>	<u>480</u>

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

	<u>2017</u>	<u>2016</u>
	HK\$ Mn	HK\$ Mn
CONTINUING OPERATIONS		
Revaluation gain/(loss) on financial assets	11	(84)
Revaluation gain/(loss) on financial liabilities	22	(11)
Profit on sale of financial assets	2	3
	<u>35</u>	<u>(92)</u>

8. Net Hedging Loss

	<u>2017</u>	<u>2016</u>
	HK\$ Mn	HK\$ Mn
CONTINUING OPERATIONS		
Fair value hedges		
- Net gain/(loss) on hedged items attributable to the hedged risk	57	(435)
- Net (loss)/gain on hedging instruments	(59)	413
	<u>(2)</u>	<u>(22)</u>

There was insignificant ineffectiveness recognised in the Group's income statement arising from cash flow hedge for the years 2017 and 2016.

9. Net Insurance Revenue

	2017 HK\$ Mn	2016 HK\$ Mn
CONTINUING OPERATIONS		
(a) Net insurance revenue		
Net interest income	453	397
Net trading profits/(loss)	59	(14)
Net profits/(loss) from financial instruments designated at fair value through profit or loss	52	(4)
Net hedging loss	(14)	(3)
Net insurance premium and other income	4,332	3,347
Other operating income	6	1
	<u>4,888</u>	<u>3,724</u>
Net insurance claims and expenses	(c) <u>(4,733)</u>	<u>(3,441)</u>
	155	283
Operating expenses	(4)	(3)
Impairment loss on available-for-sale financial assets	(2)	(30)
Net profit on sale of available-for-sale financial assets	538	165
	<u>687</u>	<u>415</u>
(b) Net insurance premium and other income		
Gross insurance premium income (<i>Note</i>)	4,395	3,417
Reinsurers' share of gross insurance premium income	(63)	(70)
	<u>4,332</u>	<u>3,347</u>
(c) Net insurance claims and expenses		
Claims, benefits and surrenders paid	3,137	2,840
Movement in provisions	1,564	466
	<u>4,701</u>	<u>3,306</u>
Reinsurers' share of claim, benefits and surrenders paid	(938)	(751)
Reinsurers' share of movement in provisions	809	735
	<u>(129)</u>	<u>(16)</u>
	4,572	3,290
Net insurance commission expenses	161	151
	<u>4,733</u>	<u>3,441</u>

Note: Gross insurance premium income represents gross premiums received and receivable in respect of long-term business and general insurance business, net of discounts and returns.

10. Other Operating Income

	2017 HK\$ Mn	2016 HK\$ Mn
CONTINUING OPERATIONS		
Dividend income from available-for-sale financial assets		
- listed	14	18
- unlisted	20	18
Rental from safe deposit boxes	88	86
Rental income on properties	165	205
Others	95	51
	<u>382</u>	<u>378</u>

11. Operating Expenses

	2017	2016
	HK\$ Mn	Restated ^{Note} HK\$ Mn
CONTINUING OPERATIONS		
Contributions to defined contribution plan		
- Hong Kong	140	150
- Outside Hong Kong	221	240
Equity-settled share-based payment expenses	36	35
Salaries and other staff costs	4,371	4,288
Total staff costs	<u>4,768</u>	<u>4,713</u>
Premises and equipment expenses excluding depreciation		
- Rental of premises	561	619
- Maintenance, repairs and others	568	558
Total premises and equipment expenses excluding depreciation	<u>1,129</u>	<u>1,177</u>
Depreciation on fixed assets	<u>466</u>	<u>468</u>
Amortisation of intangible assets	<u>32</u>	<u>32</u>
Other operating expenses		
- Legal and professional fees	394	461
- Communications, stationery and printing	263	285
- Advertising expenses	254	250
- Stamp duty, overseas and PRC business taxes, and value added taxes	182	268
- Business promotions and business travel	138	142
- Insurance expenses	78	64
- Card related expenses	41	35
- Audit fee	17	16
- Membership fees	17	18
- Bank charges	10	8
- Bank licence	4	4
- Donations	4	4
- Others	270	261
Total other operating expenses	<u>1,672</u>	<u>1,816</u>
Total operating expenses	<u>8,067</u>	<u>8,206</u>

Note: To better reflect the expenses nature, HK\$96 million expenses under social insurance plans of Mainland China was reclassified to salaries and other staff costs from contributions to defined contribution plan outside Hong Kong.

12. Impairment Losses on Intangible Assets

	2017	2016
	HK\$ Mn	HK\$ Mn
CONTINUING OPERATIONS		
Impairment losses on intangible assets	<u>650</u>	<u>-</u>

Being impairment loss made on the naming rights of a building partially owned and occupied by BEA China in the Mainland which reflected the diminution in value following a recent change in government policy regulating advertising billboards.

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

	2017 ^{Note}	2016
	HK\$ Mn	HK\$ Mn
CONTINUING OPERATIONS		
Net revaluation gain transferred from reserves	1,320	136
Loss arising in current year	(263)	(44)
	<u>1,057</u>	<u>92</u>

Note: Upon transition to Hong Kong Financial Reporting Standard 9 on 1st January 2018, any unrealized gains/losses of available-for-sale financial assets that are required to be reclassified as "fair value through profit or loss" as of 31st December 2017 have to be transferred from revaluation reserve to the opening balance of retained earnings at 1st January 2018, and cannot be recycled to the profit and loss account upon subsequent disposal. Hence, the Group has chosen to dispose of such available-for-sale financial assets before the end of 2017, as far as practicable.

14. Net (Loss)/Gain on Disposal of Fixed Assets

	2017	2016
	HK\$ Mn	HK\$ Mn
CONTINUING OPERATIONS		
Net gain on disposal of investment properties	-	144
Net (loss)/gain on disposal of bank premises, furniture, fixtures and equipment	(22)	715
	<u>(22)</u>	<u>859</u>

15. Income Tax

Taxation in the consolidated income statement represents:

	2017	2016
	HK\$ Mn	HK\$ Mn
CONTINUING OPERATIONS		
Current tax – Hong Kong		
Tax for the year	695	687
Under-provision in respect of prior years	36	36
	<u>731</u>	<u>723</u>
Current tax – outside Hong Kong		
Tax for the year*	605	1,026
Write back of over-provision in respect of prior years	(364)	(58)
	<u>241</u>	<u>968</u>
Deferred tax		
Origination and reversal of temporary differences	223	(624)
	<u>1,195</u>	<u>1,067</u>

* In 2016, certain properties in Mainland China were disposed of, which resulted in an impact of land value added tax and corporate income tax totalling HK\$427 million.

The provision for Hong Kong profits tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

16. Trading Assets

	<u>2017</u>	<u>2016</u>
	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	2,218	1,034
Certificates of deposits held	-	431
Debt securities	1,781	1,663
Equity securities	2,953	1,276
Investment funds	4	-
	<u>6,956</u>	<u>4,404</u>

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

	<u>2017</u>	<u>2016</u>
	HK\$ Mn	HK\$ Mn
Debt securities	3,879	3,330
Equity securities	166	155
Investment funds	124	69
	<u>4,169</u>	<u>3,554</u>

18. Loans and Advances to Customers

(a) Loans and advances to customers

	<u>2017</u>	<u>2016</u>
	HK\$ Mn	HK\$ Mn
Gross loans and advances to customers	473,776	454,242
Less: Impairment allowances		
- Individual	(1,059)	(1,715)
- Collective	(2,378)	(2,082)
	<u>470,339</u>	<u>450,445</u>

(b) Loans and advances to customers – by industry sectors

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

	2017		2016	
	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$ Mn	%	HK\$ Mn	%
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	20,280	70.18	21,934	78.46
- Property investment	37,359	92.71	38,224	92.41
- Financial concerns	12,489	66.06	10,296	64.91
- Stockbrokers	6,899	90.20	2,988	93.10
- Wholesale and retail trade	8,831	63.00	14,821	72.21
- Manufacturing	2,123	40.31	2,925	58.21
- Transport and transport equipment	4,976	65.45	5,633	69.60
- Recreational activities	176	71.30	171	73.50
- Information technology	2,747	1.26	2,596	0.51
- Others	25,876	67.63	18,720	79.83
- Sub-total	121,756	74.48	118,308	78.95
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,064	100.00	988	100.00
- Loans for the purchase of other residential properties	42,803	100.00	40,750	100.00
- Credit card advances	4,644	0.00	4,540	0.00
- Others	34,034	87.14	27,301	86.84
- Sub-total	82,545	89.07	73,579	88.95
Total loans for use in Hong Kong	204,301	80.37	191,887	82.78
Trade finance	3,934	70.33	5,390	74.86
Loans for use outside Hong Kong*	265,541	54.34	256,965	59.76
Total advances to customers	473,776	65.70	454,242	69.67

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

	2017		2016	
	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$ Mn	%	HK\$ Mn	%
Property development	44,416	54.04	42,140	54.91
Property investment	29,176	92.32	28,940	94.63
Financial concerns	33,431	6.24	25,512	15.22
Wholesale and retail trade	13,058	58.37	14,639	67.90
Manufacturing	7,176	30.41	7,504	44.43
Loans for the purchase of other residential properties	15,181	99.94	15,982	99.98
Others	38,716	33.62	37,710	39.48
	181,154	50.24	172,427	57.15

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

	2017 HK\$ Mn	2016 HK\$ Mn
(i) Property development		
a. Individually impaired loans	316	67
b. Individual impairment allowance	-	8
c. Collective impairment allowance	420	382
d. Provision charged to income statement		
- individual impairment loss	15	49
- collective impairment loss	77	249
e. Written off	26	8
(ii) Property investment		
a. Individually impaired loans	792	932
b. Individual impairment allowance	113	77
c. Collective impairment allowance	425	401
d. Provision charged to income statement		
- individual impairment loss	142	214
- collective impairment loss	55	213
e. Written off	118	146
(iii) Loans for purchase of residential properties		
a. Individually impaired loans	296	355
b. Individual impairment allowance	3	6
c. Collective impairment allowance	214	209
d. Provision charged to income statement		
- individual impairment loss	5	111
- collective impairment loss	7	91
e. Written off	4	44
(iv) Wholesale and retail trade		
a. Individually impaired loans	1,084	2,317
b. Individual impairment allowance	368	808
c. Collective impairment allowance	180	184
d. Provision charged to income statement		
- individual impairment loss	637	1,680
- collective impairment loss	29	108
e. Written off	438	928
(v) Hotels		
a. Individually impaired loans	1,189	981
b. Individual impairment allowance	258	330
c. Collective impairment allowance	69	72
d. Provision charged to income statement		
- individual impairment loss	50	433
- collective impairment loss	12	40
e. Written off	99	379

(c) Loans and advances to customers – by geographical areas

The information concerning the breakdown of the gross amount of advances to customers by countries or geographical areas is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	2017				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	207,523	1,746	1,997	336	498
Mainland China	203,128	2,039	2,758	682	1,721
Other Asian Countries and Regions	27,456	191	390	41	68
Others	35,669	1	32	-	91
Total	473,776	3,977	5,177	1,059	2,378
% of total advances to customers			1.09%		
Market value of collateral held against impaired advances to customers			4,329		

	2016 (Restated ^{Note})				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	194,181	721	2,164	260	416
Mainland China	192,550	3,389	4,309	1,428	1,474
Other Asian Countries and Regions	30,146	76	241	26	80
Others	37,365	3	53	1	112
Total	454,242	4,189	6,767	1,715	2,082
% of total advances to customers			1.49%		
Market value of collateral held against impaired advances to customers			4,948		

Note: The 2016 comparative figures have been restated to conform to current period's presentation. To align with the segment reporting, segment People's Republic of China was renamed as Mainland China which does not include Macau and Taiwan operations. Advances to customers from Macau and Taiwan operations were now presented under segment Other Asian Countries and Regions (previously named Other Asian Countries).

Impaired loans and advances are individually assessed loans with objective evidence of impairment on an individual basis. The above information by countries or geographical areas is derived according to the location of the counterparties after taking into account any transfer of risk.

Collateral includes any tangible security that carries a fair market value and is readily marketable. This includes (but is not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets such as plant and equipment. Where collateral values are greater than gross loans and advances to customers, only the amount of collateral up to the gross loans and advances is included.

19. Available-for-Sale Financial Assets

	2017	2016
	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	27,024	18,795
Certificates of deposit held	1,150	1,205
Debt securities	88,560	86,964
Equity securities	3,042	3,064
Investment funds	549	463
	<u>120,325</u>	<u>110,491</u>

20. Held-to-Maturity Investments

	2017	2016
	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	1,699	2,252
Certificates of deposit held	1,269	818
Debt securities	6,830	2,593
	<u>9,798</u>	<u>5,663</u>

21. Other Assets

	2017	2016
	HK\$ Mn	HK\$ Mn
Notes and bonds	133	-
Accrued interest	2,578	2,247
Customer liabilities under acceptances	18,309	25,084
	<u>21,020</u>	<u>27,331</u>
Other accounts	11,622	9,324
Less: Impairment allowances		
- Individual	(14)	(85)
- Collective	(2)	(1)
	<u>11,606</u>	<u>9,238</u>
Assets held for sale (Note 27)	466	2,506
	<u>33,092</u>	<u>39,075</u>

22. Segment Reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's Senior Management for the purposes of resource allocation and performance assessment, the Group has presented the following nine reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

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

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

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

Financial institutions include trade financing activities with correspondent banks in Hong Kong.

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

Mainland China operations (previously named as China Operation) mainly include the back office unit for Mainland China operations in Hong Kong, all branches, subsidiaries and associates operated in Mainland China, except those subsidiaries carrying out corporate services, data processing and other back office operations in Mainland China. Previously, Macau and Taiwan operations were grouped under China operations. With effect from 2017, China operations are renamed as Mainland China operations which do not include Macau and Taiwan operations. The 2016 figures have been restated for comparison purpose.

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. Before 2017, Macau and Taiwan operations were grouped under China operations. With effect from 2017, Macau and Taiwan operations are grouped under Overseas operations and the 2016 figures have been restated for comparison purpose.

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

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

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

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

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

2017

	Hong Kong banking operations								Total reportable segments HK\$ Mn	Others HK\$ Mn	Inter-segment elimination HK\$ Mn	Total HK\$ Mn
	Personal banking	Corporate banking	Treasury markets	Wealth management	Financial institutions	Others	Mainland China operations	Overseas operations				
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn				
CONTINUING OPERATIONS												
Net interest income/(expense)	3,352	1,934	19	380	21	237	3,834	1,515	11,292	540	-	11,832
Non-interest income/(expense)	816	376	20	452	19	914	742	246	3,585	884	(348)	4,121
Operating income	4,168	2,310	39	832	40	1,151	4,576	1,761	14,877	1,424	(348)	15,953
Operating expenses	(1,603)	(190)	(219)	(201)	(11)	(447)	(3,034)	(605)	(6,310)	(2,105)	348	(8,067)
Operating profit/(loss) before impairment losses	2,565	2,120	(180)	631	29	704	1,542	1,156	8,567	(681)	-	7,886
(Charge for)/Write back of impairment losses on loans and receivables	(158)	(405)	-	(1)	-	(9)	(1,151)	(14)	(1,738)	(4)	-	(1,742)
Impairment losses on available-for-sale financial assets	-	-	(2)	-	-	-	-	-	(2)	-	-	(2)
Impairment losses on assets held for sale	-	-	-	-	-	-	(63)	-	(63)	-	-	(63)
Impairment losses on intangible assets	-	-	-	-	-	-	(650)	-	(650)	-	-	(650)
Operating profit/(loss) after impairment losses	2,407	1,715	(182)	630	29	695	(322)	1,142	6,114	(685)	-	5,429
Profit/(Loss) on sale of fixed assets, held-to-maturity investments and available-for-sale financial assets	(14)	14	1,027	-	-	16	(5)	-	1,038	3	-	1,041
Profit/(Loss) on sale of disposal groups and assets held for sale	-	-	-	-	-	4	(13)	-	(9)	192	-	183
Profit on disposal of subsidiaries/associates	-	-	-	-	-	-	-	-	-	2	-	2
Valuation gains on investment properties	-	-	-	-	-	-	-	1	1	521	-	522
Share of profits less losses of associates	-	-	-	-	-	4	92	292	388	-	-	388
Profit/(Loss) before taxation	2,393	1,729	845	630	29	719	(248)	1,435	7,532	33	-	7,565
Depreciation for the year	(62)	(1)	(5)	(3)	-	(13)	(202)	(34)	(320)	(146)	-	(466)
Segment assets	81,889	148,083	164,908	26,284	5,237	21,123	299,726	107,804	855,054	13,555	(69,562)	799,047
Investments in associates	-	-	-	-	-	54	3,414	5,961	9,429	-	-	9,429
Other assets – Assets held for sale	-	-	-	-	-	351	76	39	466	-	-	466
Total assets	81,889	148,083	164,908	26,284	5,237	21,528	303,216	113,804	864,949	13,555	(69,562)	808,942
Segment liabilities	309,279	902	53,725	21,606	5	16,762	251,933	98,057	752,269	2,509	(47,059)	707,719
Other liabilities – Liabilities held for sale	-	-	-	-	-	9	-	-	9	-	-	9
Total liabilities	309,279	902	53,725	21,606	5	16,771	251,933	98,057	752,278	2,509	(47,059)	707,728
Capital expenditure incurred during the year	146	-	-	-	-	13	95	24	278	131	-	409

2016 (Restated)

	Hong Kong banking operations						Mainland China operations	Overseas operations	Corporate Services	Total reportable segments	Inter- segment elimination		Total
	Personal banking	Corporate banking	Treasury markets	Wealth management	Financial institutions	Others					Others	HK\$ Mn	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	
CONTINUING OPERATIONS													
Net interest income/(expense)	2,864	2,120	(229)	348	19	268	3,889	1,512	-	10,791	308	(1)	11,098
Non-interest income	716	328	76	443	15	625	768	218	-	3,189	781	(354)	3,616
Operating income	3,580	2,448	(153)	791	34	893	4,657	1,730	-	13,980	1,089	(355)	14,714
Operating expenses	(1,740)	(197)	(134)	(196)	(12)	(521)	(3,257)	(611)	-	(6,668)	(1,893)	355	(8,206)
Operating profit/(loss) before impairment losses	1,840	2,251	(287)	595	22	372	1,400	1,119	-	7,312	(804)	-	6,508
(Charge for)/Write back of impairment losses on loans and receivables	(230)	(306)	1	(2)	-	(27)	(2,819)	(79)	-	(3,462)	-	-	(3,462)
Impairment losses on available-for-sale financial assets	-	-	-	-	-	(1)	-	-	-	(1)	-	-	(1)
Operating profit/(loss) after impairment losses	1,610	1,945	(286)	593	22	344	(1,419)	1,040	-	3,849	(804)	-	3,045
Profit/(Loss) on sale of fixed assets, held-to-maturity investments, available-for-sale financial assets and repurchase of debt issued	(13)	16	68	-	-	1	891	(8)	-	955	-	-	955
Profit/(Loss) on sale of disposal groups and assets held for sale	-	-	-	-	-	-	-	(7)	-	(7)	106	-	99
Valuation gains on investment properties	-	-	-	-	-	-	-	1	-	1	61	-	62
Share of profits less losses of associates	-	-	-	-	-	(1)	141	291	-	431	-	-	431
Profit/(Loss) before taxation	1,597	1,961	(218)	593	22	344	(387)	1,317	-	5,229	(637)	-	4,592
Depreciation for the year	(59)	(1)	(6)	(2)	-	(17)	(201)	(32)	-	(318)	(150)	-	(468)
Segment assets	73,887	150,132	149,947	23,627	8,207	18,523	283,987	104,266	-	812,576	17,255	(72,642)	757,189
Investments in associates	-	-	-	-	-	49	1,166	4,796	-	6,011	-	-	6,011
Other assets – Assets held for sale	-	-	-	-	-	-	251	39	2,205	2,495	11	-	2,506
Total assets	73,887	150,132	149,947	23,627	8,207	18,572	285,404	109,101	2,205	821,082	17,266	(72,642)	765,706
Segment liabilities	291,835	922	62,725	21,308	6	14,756	238,308	92,512	-	722,372	2,066	(45,794)	678,644
Other liabilities – Liabilities held for sale	-	-	-	-	-	-	41	-	385	426	-	-	426
Total liabilities	291,835	922	62,725	21,308	6	14,756	238,349	92,512	385	722,798	2,066	(45,794)	679,070
Capital expenditure incurred during the year	100	1	30	4	-	22	74	46	30	307	141	-	448

23. Off-balance Sheet Exposures

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

	2017 HK\$ Mn	2016 HK\$ Mn
Contractual amounts of contingent liabilities		
Direct credit substitutes	12,319	17,568
Transaction-related contingencies	817	763
Trade-related contingencies	1,490	1,133
	<u>14,626</u>	<u>19,464</u>
Contractual amounts of commitments		
Commitments that are unconditionally cancellable without prior notice	170,099	160,737
Other commitments with an original maturity		
- up to 1 year	7,766	10,419
- over 1 year	26,577	27,633
	<u>204,442</u>	<u>198,789</u>
Total	<u>219,068</u>	<u>218,253</u>
Credit risk weighted amounts	<u>31,289</u>	<u>34,130</u>
Fair value of derivatives		
Assets		
Exchange rate contracts	8,806	6,148
Interest rate contracts	2,258	2,582
Equity contracts	256	202
Others	15	6
	<u>11,335</u>	<u>8,938</u>
Liabilities		
Exchange rate contracts	9,599	5,709
Interest rate contracts	1,924	2,019
Equity contracts	534	234
Others	20	20
	<u>12,077</u>	<u>7,982</u>
Notional amounts of derivatives		
Exchange rate contracts	699,544	529,917
Interest rate contracts	511,219	386,691
Equity contracts	19,757	10,911
Others	1,342	1,297
	<u>1,231,862</u>	<u>928,816</u>
Credit risk weighted amounts*		
Exchange rate contracts	4,230	5,131
Interest rate contracts	455	775
Equity contracts	92	41
Others	349	286
	<u>5,126</u>	<u>6,233</u>

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

* The Bank adopted the Foundation Internal Ratings Based approach according to Capital Rules for calculating the credit risk weighted amount as at 31st December, 2017 and 31st December, 2016.

24. Reserves

	2017	2016
	HK\$ Mn	HK\$ Mn
General reserve	14,060	14,035
Revaluation reserve on bank premises	1,757	1,728
Investment revaluation reserve	1,465	1,359
Exchange revaluation reserve	487	(2,275)
Capital reserve	230	230
Capital reserve – staff share options issued	135	124
Other reserves	4,931	5,293
Retained profits*	28,890	22,447
	<u>51,955</u>	<u>42,941</u>
Dividends declared, not provided for	<u>1,659</u>	<u>757</u>

* A regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances and investments in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the HKMA. As at 31st December, 2017, HK\$4,062 million (31st December, 2016: HK\$4,372 million) was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the HKMA.

25. Non-adjusting events after the reporting period

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

26. Comparative Figures

Certain 2016 comparative figures have been restated to conform to current year's presentation. Please refer to Consolidated Income Statement, Consolidated Statement of Financial Position, Notes 5, 11, 18(c) and 22 for the effect of restatement.

27. Discontinued Operations and Assets Held for Sale

On 5th October, 2016, the Bank, NWS Holdings Limited ("NWS Holdings") and East Asia Secretaries (BVI) Limited ("East Asia Secretaries") entered into a share purchase agreement with Trivium Investment Limited ("Trivium"), a wholly-owned subsidiary of global investment firm, Permira, for the sale of all the issued shares of Tricor Holdings Limited ("Tricor") held by East Asia Secretaries to Trivium for a total consideration of HK\$6,470 million. Tricor was 75.61% owned by the Bank and 24.39% owned by NWS Holdings, in each case through East Asia Secretaries. On 31st March, 2017, the Bank completed the disposal of Tricor to Trivium. Following completion of the disposal, the Bank has ceased to hold any equity interest in Tricor and Tricor has ceased to be a subsidiary of the Bank. A net profit of HK\$3,005 million in respect of the disposal was recorded and included in the profits attributable to owners of the parent from discontinued operations. Tricor's operating results are reported as discontinued operations in the consolidated income statement and the corresponding assets and liabilities as at 31st December, 2016 were presented separately as assets held for sale and liabilities held for sale respectively in the consolidated financial statements.

On 6th December, 2016, the Bank entered into an agreement to sell its wholly-owned subsidiary, Shaanxi Fuping BEA Rural Bank Corporation ("BEA Rural Bank") to Shaanxi Dingbian Rural Commercial Bank Corporation for a total consideration of RMB24 million. The sale was completed on 22nd May, 2017. BEA Rural Bank's assets and liabilities as at 31st December, 2016 were presented separately as assets held for sale and liabilities held for sale respectively in the consolidated financial statements.

On 29th November, 2017, the Bank and its wholly-owned subsidiary, Credit Gain Finance Company Limited entered into an equity transfer agreement with China Financial Services Holdings Limited for the sale and purchase of all equity interests in Shenzhen Credit Gain Finance Company Limited ("Shenzhen Credit Gain"), Chongqing Liangjiang New Area Credit Gain Finance Company ("Chongqing Credit Gain") and Chongqing Dongrong Business Consultancy Company Limited ("Chongqing Dongrong") ("collectively, the "China Disposal"). The total consideration of the China Disposal is RMB563 million, subject to mutually agreed adjustments upon completion. The completion of the China Disposal is subject to the requisite Chinese regulatory approvals. Shenzhen Credit Gain, Chongqing Credit Gain and Chongqing Dongrong's assets and liabilities as at 31st December 2017 are presented separately as assets held for sale and liabilities held for sale respectively in the consolidated financial statements.

The results of discontinued operations for the periods are as follows:

	2017 HK\$ Mn	2016 HK\$ Mn
Interest income	1	6
Interest expense	(1)	(3)
Net interest income	-	3
Fee and commission income	312	1,258
Fee and commission expense	-	-
Net fee and commission income	312	1,258
Net trading losses	(4)	(8)
Other operating income	-	2
Non-interest income	308	1,252
Operating income	308	1,255
Operating expenses	(232)	(892)
Operating profit before impairment losses	76	363
Impairment losses on loans and receivables	(2)	(3)
Operating profit after impairment losses	74	360
Net profit on sale of available-for-sale financial assets	-	4
Net profit on sale of discontinued operations	4,084	-
Valuation gains on investment properties	-	1
Share of profits less losses of associates	1	-
Profit for the year before taxation	4,159	365
Income tax		
Current tax		
- Hong Kong	(8)	(33)
- Outside Hong Kong	(6)	(28)
Profit for the year from discontinued operations	4,145	304
	HK\$	HK\$
Earnings per share for profit attributable to the equity holders of the Bank		
Basic and diluted		
- profit from discontinued operations	1.12	0.09

The assets and liabilities of the disposal groups held for sale are summarised below:

	2017 HK\$ Mn	2016 HK\$ Mn
ASSETS		
Cash and balances with banks and other financial institutions	4	426
Placements with and advances to banks and other financial institutions	-	66
Loans and advances to customers	307	95
Gross loans and advances to customers	317	96
Less: Collective impairment allowance	(10)	(1)
Available-for-sale financial assets	-	27
Investments in associates	-	21
Fixed assets	9	205
- Investment properties	-	22
- Other properties and equipment	9	183
Goodwill and intangible assets	-	1,149
Deferred tax assets	25	10
Other assets	6	315
Accrued interest and other accounts	6	346
Less: Individual impairment allowance	-	(25)
Collective impairment allowance	-	(6)
Assets held for sale	<u>351</u>	<u>2,314</u>
LIABILITIES		
Deposits and balances of banks and other financial institutions	-	66
Deposits from customers	-	40
Current taxation	-	18
Deferred tax liabilities	-	3
Other liabilities	9	299
Liabilities held for sale	<u>9</u>	<u>426</u>

The assets held for sale and liabilities held for sale are summarized below:

	2017 HK\$ Mn	2016 HK\$ Mn
Assets held for sale (Note 21)		
Disposal groups held for sale	351	2,314
Other properties	115	192
	<u>466</u>	<u>2,506</u>
Liabilities held for sale		
Disposal groups held for sale	<u>9</u>	<u>426</u>

The cumulative income recognised in other comprehensive income relating to disposal groups held for sale is as follows:

	2017 HK\$ Mn	2016 HK\$ Mn
Cumulative income recognised in other comprehensive income	<u>(34)</u>	<u>(61)</u>

The net cash flows incurred by discontinued operations and included in the consolidated cash flow statement are as follows:

	2017 HK\$ Mn	2016 HK\$ Mn
Operating activities	-	278
Investing activities	-	(19)
Financing activities	-	(91)
Net cash inflow	<u>-</u>	<u>168</u>

28. HKFRS 9, Financial Instruments

HKFRS 9 is effective for annual periods beginning on or after 1st January, 2018, with early adoption permitted. It replaces HKAS 39 Financial Instruments: Recognition and Measurement.

The Group applied HKFRS 9 initially on 1st January, 2018. Based on assessments undertaken to date, the total estimated adjustment (before tax) of the adoption of HKFRS 9 on the opening balance of the Group's equity at 1st January, 2018 is approximately HK\$0.5 billion, representing:

- a reduction of approximately HK\$0.4 billion related to impairment requirements; and
- a reduction of approximately HK\$0.1 billion related to classification and measurement requirements, other than impairment, primarily due to the reversal of unrealised gains from the reclassification of available-for-sale financial assets to amortised cost as the Group intends to collect the contractual cash flows of these portfolios.

The relevant impact from deferred tax and associates to the Group's equity is estimated to be immaterial.

The overall impact on Common Tier 1 Capital Ratio is estimated to be reduced by 18 bps.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting HKFRS 9 on 1st January, 2018 may change because:

- the relevant tax impact arising from the implementation of the new accounting standard is still subject to clarification on the tax treatment by local tax authority;
- the Group is refining and finalising its models for Expected Credit Losses (ECLs) calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its first financial statements that include the date of initial application.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(A) Capital Adequacy

	2017 HK\$ Mn	2016 HK\$ Mn
Capital base		
- Common Equity Tier 1 capital	72,786	62,780
- Additional Tier 1 capital	10,666	7,142
- Total Tier 1 capital	83,452	69,922
- Tier 2 capital	14,672	20,360
- Total capital	98,124	90,282
Risk weighted assets by risk type		
- Credit risk	496,034	477,065
- Market risk	28,161	14,981
- Operational risk	31,005	29,267
	555,200	521,313
Less: Deductions	(3,332)	(3,014)
	551,868	518,299
	2017 %	2016 %
Common Equity Tier 1 capital ratio	13.2	12.1
Tier 1 capital ratio	15.1	13.5
Total capital ratio	17.8	17.4

Capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules (“the Capital Rules”) issued by the HKMA. In accordance with the Capital Rules, the Bank has adopted the foundation internal ratings-based approach for the calculation of the risk-weighted assets for credit risk and the internal models approach for the calculation of market risk and standardised approach for operational risk.

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

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

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

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

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

B. Liquidity Position

		2017	2016
		%	%
Average liquidity coverage ratio	- First quarter	150.7	151.3
	- Second quarter	129.5	141.2
	- Third quarter	136.5	133.5
	- Fourth quarter	151.7	137.2

The liquidity coverage ratio ("LCR") is calculated in accordance with the Banking (Liquidity) Rules effective from 1st January, 2015. The information for the regulatory disclosure can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at www.hkbea.com or at the following direct link: www.hkbea.com/regulatory_disclosures.

The Bank held an amount of HKD-denominated level 1 assets that was not less than 20% of its HKD-denominated total net cash outflows. There is no significant currency mismatch in the Bank's LCR at respective levels of consolidation.

C. International Claims

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

	2017					Total claims HK\$ Mn
	Non-bank private sector					
	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Others	
<u>Counterparty country/ jurisdiction</u>	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Developed countries	35,973	1,001	6,562	14,937	-	58,473
Offshore centres	8,137	1,419	5,336	75,095	-	89,987
- of which: Hong Kong	4,177	1,415	4,902	64,666	-	75,160
Developing Asia and Pacific	34,511	4,355	8,886	82,256	-	130,008
- of which: China	25,081	4,132	7,636	75,380	-	112,229

	2016					Total claims HK\$ Mn
	Non-bank private sector					
	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Others	
<u>Counterparty country/ jurisdiction</u>	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Developed countries	18,381	4,476	6,906	10,251	-	40,014
Offshore centres	6,921	544	3,737	76,943	-	88,145
- of which: Hong Kong	4,260	540	3,606	65,877	-	74,283
Developing Asia and Pacific	23,712	3,706	8,978	96,198	-	132,594
- of which: China	10,494	3,517	8,831	89,147	-	111,989

The above figures are computed in accordance with the HKMA's guidelines on the return of international banking statistics and the Banking (Disclosure) Rules in respect of the reporting period on the consolidated basis.

D. Mainland Activities

The table below summaries the non-bank Mainland China exposure of the Bank's Hong Kong Office and the Bank's Mainland subsidiary banks categorised by types of counterparties:

<u>Type of counterparties</u>	2017		Total HK\$ Mn
	On-balance sheet exposure HK\$ Mn	Off-balance sheet exposure HK\$ Mn	
1. Central government, central government-owned entities and their subsidiaries and joint ventures	34,580	4,616	39,196
2. Local governments, local government-owned entities and their subsidiaries and joint ventures	21,731	662	22,393
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	156,875	4,068	160,943
4. Other entities of central government not reported in item 1 above	4,783	431	5,214
5. Other entities of local governments not reported in item 2 above	3,361	23	3,384
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	5,130	315	5,445
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	39,565	3,493	43,058
Total	<u>266,025</u>	<u>13,608</u>	<u>279,633</u>
Total assets after provision	<u>746,108</u>		
On-balance sheet exposures as percentage of total assets	<u>35.7%</u>		

<u>Type of counterparties</u>	2016 (Restated)		
	On-balance sheet exposure	Off-balance sheet exposure	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn
1. Central government, central government-owned entities and their subsidiaries and joint ventures	32,612	5,928	38,540
2. Local governments, local government-owned entities and their subsidiaries and joint ventures	21,379	564	21,943
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	162,746	10,955	173,701
4. Other entities of central government not reported in item 1 above	5,004	831	5,835
5. Other entities of local governments not reported in item 2 above	3,588	5	3,593
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	4,092	709	4,801
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	37,368	2,243	39,611
Total	<u>266,789</u>	<u>21,235</u>	<u>288,024</u>
Total assets after provision	<u>710,187</u>		
On-balance sheet exposures as percentage of total assets	<u>37.6%</u>		

The above figures are disclosed in accordance with the return relating to Mainland activities the Bank submitted to the HKMA pursuant to section 63 of the Banking Ordinance in respect of the reporting period, which are computed on the consolidated basis as required by the HKMA for its regulatory purposes.

E. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

	2017		2016	
	HK\$ Mn	% of total advances to customers	HK\$ Mn	% of total advances to customers
Advances to customers overdue for				
- 6 months or less but over 3 months	576	0.1	455	0.1
- 1 year or less but over 6 months	765	0.2	1,009	0.2
- Over 1 year	2,636	0.5	2,725	0.6
	<u>3,977</u>	<u>0.8</u>	<u>4,189</u>	<u>0.9</u>
Rescheduled advances to customers	<u>108</u>	<u>0.0</u>	<u>107</u>	<u>0.0</u>
Total overdue and rescheduled advances	<u>4,085</u>	<u>0.8</u>	<u>4,296</u>	<u>0.9</u>
Covered portion of overdue advances	<u>3,242</u>	<u>0.7</u>	<u>2,907</u>	<u>0.6</u>
Uncovered portion of overdue advances	<u>736</u>	<u>0.2</u>	<u>1,282</u>	<u>0.3</u>
Current market value of collateral held against the covered portion of overdue advances	<u>4,508</u>		<u>5,678</u>	
Individual impairment allowance made on advances overdue for more than 3 months	<u>931</u>		<u>1,510</u>	

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

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

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

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

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

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

- (a) Debt rescheduling / restructuring
- (b) Enforcement of security
- (c) Legal action
- (d) Recovery via debt collector

(b) Advances to banks

	2017	2016
	HK\$ Mn	HK\$ Mn
Advances to banks overdue for		
- 6 months or less but over 3 months	-	-
- 1 year or less but over 6 months	-	-
- Over 1 year	-	-
	-	-
Rescheduled advances to banks	-	-
Total overdue and rescheduled advances	-	-

(c) Other overdue and rescheduled assets

	2017		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	1	-	-
- 1 year or less but over 6 months	-	-	-
- Over 1 year	-	-	1
	1	-	1
Rescheduled assets	-	-	-
Total other overdue and rescheduled assets	1	-	1

	2016		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	-	-	-
- 1 year or less but over 6 months	-	-	-
- Over 1 year	-	-	1
	-	-	1
Rescheduled assets	-	-	-
Total other overdue and rescheduled assets	-	-	1

* Other assets refer to trade bills and receivables.

(d) Repossessed assets

	2017	2016
	HK\$ Mn	HK\$ Mn
Reposessed land and buildings*	1,485	333
Reposessed vehicles and equipment	-	-
Reposessed machines	-	-
Total reposessed assets	1,485	333

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

* The balance included HK\$5 million (2016: HK\$19 million) relating to properties that were contracted for sale but not yet completed.

F. Currency Concentrations

The net non-structural position or net structural position in a particular foreign currency is disclosed when the position in that currency constitutes 10% or more of the total net position or total net structural position in all foreign currencies respectively. The net option position is calculated in the basis of the delta-weighted position of all foreign currency option contracts.

	2017						Total HK\$ Mn
	USD HK\$ Mn	JPY HK\$ Mn	EUR HK\$ Mn	RMB HK\$ Mn	SGD HK\$ Mn	Other foreign currencies HK\$ Mn	
Spot assets	200,302	1,595	5,951	273,874	22,101	51,301	555,124
Spot liabilities	(171,552)	(1,500)	(4,683)	(272,774)	(21,188)	(47,427)	(519,124)
Forward purchases	255,806	1,387	7,330	231,475	86	11,155	507,239
Forward sales	(274,361)	(1,387)	(8,450)	(242,554)	(991)	(14,953)	(542,696)
Net options position	(8,868)	(2)	(69)	8,954	-	2	17
Net long/(short) non- structural position	<u>1,327</u>	<u>93</u>	<u>79</u>	<u>(1,025)</u>	<u>8</u>	<u>78</u>	<u>560</u>

	2016						Total HK\$ Mn
	USD HK\$ Mn	JPY HK\$ Mn	EUR HK\$ Mn	RMB HK\$ Mn	SGD HK\$ Mn	Other foreign currencies HK\$ Mn	
Spot assets	186,600	4,924	5,852	273,715	20,885	47,482	539,458
Spot liabilities	(172,440)	(1,602)	(3,934)	(253,575)	(24,727)	(42,611)	(498,889)
Forward purchases	184,475	1,287	2,731	130,912	4,880	5,073	329,358
Forward sales	(191,621)	(4,577)	(4,638)	(161,274)	(1,628)	(9,855)	(373,593)
Net options position	(9,366)	(6)	(6)	9,233	-	(12)	(157)
Net long/(short) non- structural position	<u>(2,352)</u>	<u>26</u>	<u>5</u>	<u>(989)</u>	<u>(590)</u>	<u>77</u>	<u>(3,823)</u>

	2017				Total HK\$ Mn
	USD HK\$ Mn	RMB HK\$ Mn	MYR HK\$ Mn	Other foreign currencies HK\$ Mn	
Net structural position	<u>(6,965)</u>	<u>14,584</u>	<u>2,271</u>	<u>966</u>	<u>10,856</u>

	2016				Total HK\$ Mn
	USD HK\$ Mn	RMB HK\$ Mn	MYR HK\$ Mn	Other foreign currencies HK\$ Mn	
Net structural position	<u>2,173</u>	<u>12,834</u>	<u>2,033</u>	<u>903</u>	<u>17,943</u>

The above figures are disclosed in accordance with the return relating to foreign currency positions the Bank submitted to the HKMA pursuant to section 63 of the Banking Ordinance in respect of the annual reporting period, which are computed on the consolidated basis as required by the HKMA for its regulatory purposes.

G. Leverage Ratio

	<u>2017</u>	<u>2016</u>
	HK\$ Mn	HK\$ Mn
Total Tier 1 capital	83,452	69,922
Exposure measure	833,035	793,122
	<u>%</u>	<u>%</u>
Leverage ratio	10.0	8.8

The disclosure on leverage ratio is computed on the same consolidated basis as specified in a notice from the HKMA in accordance with section 3C of the Capital Rules. The relevant disclosures pursuant to section 24A of the Banking (Disclosure) Rules can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at www.hkbea.com or at the following direct link: www.hkbea.com/regulatory_disclosures

H. Countercyclical Capital Buffer Ratio

	<u>2017</u>	<u>2016</u>
	%	%
Countercyclical capital buffer ratio	0.464	0.243

The relevant disclosures pursuant to section 24B of the Banking (Disclosure) Rules for 2017 can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at www.hkbea.com or at the following direct link: www.hkbea.com/regulatory_disclosures

I. Capital Conservation Buffer Ratio

Under section 3M of the Capital Rules, the capital conservation buffer ratio for calculating the Bank's buffer level is 1.25% for 2017 and 0.625% for 2016.

J. Higher Loss Absorbency Ratio

The HKMA has designated the Bank as a domestic systematically important authorised institution ("D-SIB"). Under section 3V of the Capital Rules, the higher loss absorbency ratio applicable to the Bank is 0.5% for 2017 and 0.25% for 2016.

K. Pillar 3 Regulatory Disclosures

The Pillar 3 regulatory disclosures for this year which are prepared in accordance with the Banking (Disclosure) Rules and disclosure templates issued by the HKMA can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at www.hkbea.com or at the following direct link: www.hkbea.com/regulatory_disclosures

STATEMENT OF COMPLIANCE

- (1) In preparing the accounts for 2017, the Bank has fully complied with the Banking (Disclosure) Rules.
- (2) The Bank is committed to maintaining high corporate governance standards and considers such commitment essential in balancing the interests of shareholders, customers and employees; and in upholding accountability and transparency.
- (3) During the financial year ended 31st December, 2017, the Bank has complied with all the Code Provisions set out in the CG Code, except for Code Provision A.2.1 as explained below.

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

Dr. the Hon. Sir David LI Kwok-po is the Chairman & Chief Executive of the Bank. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Bank. The division of responsibilities between the Chairman and the Chief Executive is clearly established and set out in the job mandate of the Chairman & Chief Executive. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals and meets regularly to discuss issues affecting operations of the Bank. There is a strong independent element in the composition of the Board. The Board believes that the current structure is conducive to strong and consistent leadership, enabling the Bank to make and implement decisions promptly and efficiently. The Board believes that Sir David's appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects and management of the Bank.

- (4) During the financial year ended 31st December, 2017, the Bank has followed the modules on CG-1, CG-5, Guidance on Empowerment of INEDs, and circular on Bank Culture Reform.

PAYMENT OF SECOND INTERIM DIVIDEND FOR 2017

The Board has declared a second interim dividend for the year ended 31st December, 2017 ("2017 Second Interim Dividend") of HK\$0.60 per share (2016 Second Interim Dividend: HK\$0.28 per share), which, together with the 2017 interim dividend of HK\$0.68 per share paid in October 2017, will constitute a total dividend of HK\$1.28 per share (2016 total dividend: HK\$0.56 per share) for the full year. The 2017 Second Interim Dividend will be paid on or about Wednesday, 4th April, 2018 in cash with an option to receive new, fully paid Shares in lieu of cash ("Scrip Dividend Scheme"), to shareholders whose names appear on the Register of Members of the Bank at the close of business on Tuesday, 13th March, 2018. For the purpose of calculating the number of new Shares to be allotted under the Scrip Dividend Scheme, the market value of the new Shares means 95% of the average closing price of the Shares on the Stock Exchange from Thursday, 8th March, 2018 (being the first day that the Shares were traded ex-dividend) to Wednesday, 14th March, 2018 (both days inclusive). Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Tuesday, 13th March, 2018.

The Scrip Dividend Scheme is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the new Shares to be issued under the Scrip Dividend Scheme. The dividend warrants and the share certificates for the Scrip Dividend Scheme will be sent to shareholders by ordinary mail on or about Wednesday, 4th April, 2018.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed for the following periods:

- (a) For the purpose of determining shareholders who qualify for the 2017 Second Interim Dividend, the Register of Members of the Bank will be closed on Monday, 12th March, 2018 and Tuesday, 13th March, 2018. In order to qualify for the 2017 Second Interim Dividend, all transfer documents accompanied by the relevant share certificates should be lodged for registration with Tricor Standard Limited (Address: Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong) by 4:00 p.m. on Friday, 9th March, 2018.
- (b) For the purpose of determining shareholders who are entitled to attend and vote at the 2018 AGM, the Register of Members of the Bank will be closed from Friday, 4th May, 2018 to Friday, 11th May, 2018 (both days inclusive). In order to qualify for attending and voting at the 2018 AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with Tricor Standard Limited (Address: Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong) by 4:00 p.m. on Thursday, 3rd May, 2018.

PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

On 24th April, 2017, the Bank completed the redemption of a face value of US\$700 million of 2.375% Senior Notes due 2017 (the "April 2017 USD Senior Notes") upon their maturity. The April 2017 USD Senior Notes were issued in 2014 under the Bank's Medium Term Note ("MTN") Programme and listed on the Singapore Exchange.

On 4th May, 2017, the Bank completed an early redemption of a face value of US\$500 million of 6.375% Subordinated Notes due 2022 (the "2022 USD Subordinated Notes") upon their first call date. The 2022 USD Subordinated Notes were issued in 2011 under the Bank's MTN Programme and listed on the Singapore Exchange.

On 26th June, 2017, the Bank completed the redemption of a face value of US\$100 million of 2.08% Senior Notes due 2017 (the "June 2017 USD Senior Notes") upon their maturity. The June 2017 USD Senior Notes were issued in 2014 under the MTN Programme of the Bank's Singapore Branch and listed on the Singapore Exchange.

On 10th July, 2017, the Bank completed the redemption of a face value of SGD50 million of 2.00% Senior Notes due 2017 (the "2017 SGD Senior Notes") upon their maturity. The 2017 SGD Senior Notes were issued in 2014 under the MTN Programme of the Bank's Singapore Branch and listed on the Singapore Exchange.

On 13th September, 2017, the Bank completed an early redemption of a face value of SGD800 million of 4.25% Subordinated Notes due 2022 (the "2022 SGD Subordinated Notes") upon their first call date. The 2022 SGD Subordinated Notes were issued in 2012 under the Bank's MTN Programme and listed on the Singapore Exchange.

Save for the redemption of the April 2017 USD Senior Notes, the 2022 USD Subordinated Notes, the June 2017 USD Senior Notes, the 2017 SGD Senior Notes and the 2022 SGD Subordinated Notes as disclosed herein, there was no purchase, sale or redemption by the Bank or any of its subsidiaries, of listed securities of the Bank during the year ended 31st December, 2017.

CHAIRMAN'S STATEMENT

The marketplace is becoming ever-more dynamic and more complex, with new forms of competition and new opportunities for growth emerging all the time. Recognising that the operating environment is constantly in flux, management regularly examines and reviews the strategies of the Bank holistically in order to ensure that forward planning remains conducive to the sustainable, stable and healthy development of the Bank Group.

Asset Quality

The global economy entered a Goldilocks phase in 2017, neither too hot nor too cold, bringing welcome relief from the credit pressures that the Bank faced in the previous two years.

The improving economy, coupled with the measures that BEA Hong Kong and BEA China introduced to mitigate credit risk, helped to sustain a recovery in asset quality in 2017. As announced previously, these measures included a more conservative approach to underwriting standards, a reduction in exposure to stressed sectors and tighter limits on loan growth. This strategy has been particularly effective on the Mainland, where the impaired loan ratio fell from 2.87% to 1.79% and credit costs declined by 117 basis points year on year. For the Group as a whole, the impaired loan ratio fell from 1.49% to 1.09% and credit costs declined by 38 basis points.

Cost Control

We maintained strict control over costs in 2017, in the second year of a three-year cost-saving plan. The programme targets three main areas: reposition the branch network for today's needs; enhance mid- and back-office productivity; and streamline the operating structure on the Mainland.

In Hong Kong, BEA aims to achieve a 22.5% reduction in branch floor area by the end of 2018. As of the end of 2017, 19.6% had already been achieved. Mid- and back-office efficiency is being driven through operations excellence programmes, aimed at simplifying procedures and automating processes.

BEA China has reduced its branch footprint by 18% over the past two years and in 2018 will further streamline both the physical network and operating procedures. In addition, BEA China is in the process of establishing a regional management structure, in order to enhance credit risk management and improve efficiency.

Fee Income

Following the sale of Tricor Services in early 2017, we have stepped up efforts to generate more fee income from our core banking business. To this end, in Hong Kong we are focusing on innovation in personal banking, launching convenient new mobile and online services. We will also enhance our bespoke financial solutions and wealth management services for high-net-worth individuals.

In corporate banking, we will deepen our relationships with strong local and Mainland corporations, marketing BEA as a one-stop provider of services to finance their business expansion and/or overseas acquisitions.

Digital and Fintech Solutions

Development of new digital, mobile and Fintech solutions are a priority for this Bank, as these solutions have the potential to improve the customer experience while raising both productivity and profitability. Online and mobile services for individual and corporate customers are being enhanced to align our digital services with their every-day banking, lifestyle and business activities, thereby encouraging active use of our digital platform.

In Hong Kong, our i-Payment Hub will reaffirm BEA's position at the forefront of developments in the industry. This integrated platform allows customers and merchants to pay, collect and settle payments via all channels, including QR code. We offer ultimate flexibility, to cater to all user preferences.

Meanwhile, we are strengthening our ability to identify emerging trends – both risks and opportunities – by applying new analytical tools to the data captured by our expanding digital platform. As digital transactions increase, we gain instant feedback on our full range of services and solutions, and can adapt quickly to changing market conditions.

China

With economic conditions improving on the Mainland, we are actively developing new business areas that will sustain our growth over the long term. In particular, BEA China is expanding its consumer lending capability in order to capture emerging demand as China transitions to a consumer society.

We see strong potential in this area. System-wide, non-mortgage retail lending grew by over 40% year-on-year in 2017. This trend is expected to continue, outpacing the increase in corporate lending.

We anticipate that this business will gradually gravitate to the traditional banking sector in the future, as Mainland authorities step up efforts to control unregulated lending. BEA China aims to more than double its consumer loan customer base by the end of 2020, increasing the share of retail lending in its portfolio from 19% today to 30% in 2020.

Meanwhile, we are positioning ourselves as a key service provider within the Guangdong-Hong Kong-Macau Greater Bay Area. This dynamic area, combining China's most advanced financial and technology hubs, is attracting the best and the brightest talent from throughout the Mainland, and is primed to lead China's development in the decades to come.

In 2017, we received approval to establish a full-license securities company (BEA shareholding, 49%) in Qianhai, and we expect the company to be fully operational in 2018.

Overseas

In addition to serving Hong Kong and Mainland clients, we will also step up efforts to serve Chinese communities abroad.

We will enhance collaboration between Hong Kong, BEA China and our strategic partners to further develop cross-border financing business, particularly for Chinese corporations expanding their business and investments overseas.

In addition, we will explore opportunities emerging from the "Belt and Road" initiative, seeking to capture those that offer strategic value to the Bank Group.

Partnerships and Investments

Partnerships enable us to extend our reach, generating a two way flow of new business and new relationships. Our preferred partners are leaders in their respective markets who choose to work with us due to our presence in key growth markets, our online and offline networks, and our full-service capability through the various financial licences that we hold.

We are expanding our online presence on the Mainland through collaboration with leading platform companies, including WeBank and Ctrip. This provides a cost- and time-efficient means to build our consumer-finance business on the Mainland.

At the heart of our partnership strategy are our cooperation agreements with our strategic partners CaixaBank and Sumitomo Mitsui Banking Corporation. We are continually deepening these relationships in areas such as customer referrals and cross-border business collaboration.

Capital Planning

We ensure that the prevailing capital level is adequate to meet regulatory requirements and enable the Bank to operate effectively. In order to maintain a stable CAR for the Bank Group, optimise asset growth and drive capital efficiency, we focus on return on risk-weighted assets. We regularly rebalance our assets in line with market trends and risk profiles, in order to position the Bank optimally at all times.

Outlook

With our focus on risk-weighted returns, we have set a priority to pursue business initiatives within the risk profiles that we have established for the Bank Group.

For 2018, BEA will further enhance asset quality, expand sources of fee income and carry out the third year of our cost-reduction programme.

Over the medium term, we will align our business initiatives in China with the economic policies set out in the Mainland's national development plans. We will also develop a new-economy consumer banking business together with our online partners.

In both Hong Kong and the Mainland, we will expand our wealth-management business, with separate strategies crafted for the high-net-worth and mass affluent markets.

In the long term, with a unique and enduring franchise in Hong Kong and the Mainland, BEA is well-positioned to serve the personal and business banking needs of local and international clients.

In closing, I take great pleasure in thanking our Bank's Board of Directors and the directors of our subsidiaries and associated companies for their invaluable advice and support during the past year. I also thank the management and staff of BEA for their dedication and commitment to providing the best possible service to all our clients in line with our strategic goals.

The support of our overseas banking partners, in particular CaixaBank and Sumitomo Mitsui Banking Corp, provides us with a competitive advantage in the marketplace, and I am very grateful to them for their close cooperation with us. I also extend my grateful thanks to our shareholders and clients for their long-standing loyalty and confidence in this Bank.

David LI Kwok-po
Chairman & Chief Executive

Hong Kong, 22nd February, 2018

REPORT OF THE SENIOR MANAGEMENT

FINANCIAL REVIEW

Financial Performance

For the year 2017, the Group earned a profit attributable to owners of the parent of HK\$9,347 million, representing an increase of HK\$5,624 million or 151.1%, compared with the HK\$3,723 million earned in 2016.

The result includes a net profit of some HK\$3 billion in respect of the disposal of Tricor Holdings Limited and its subsidiaries, which the Bank has recorded under profits attributable to owners of the parent from discontinued operations.

Excluding net profit from discontinued operations, profit attributable to owners of the parent from continuing operations amounted to HK\$6,298 million, representing an increase of HK\$2,793 million, or 79.7%, compared to 2016.

Basic earnings per share from continuing operations rose from HK\$1.12 in 2016 to HK\$2.09 in 2017. Incorporating discontinued operations, basic earnings per share rose from HK\$1.21 in 2016 to HK\$3.21 in 2017.

Return on average assets rose from 0.4% to 1.1%, while the return on average equity rose from 4.1% to 10.3%.

During 2017, the Group's net interest income from continuing operations increased by HK\$734 million, or 6.6%, to HK\$11,832 million. Net interest margin increased from 1.60% to 1.65%, and average interest bearing assets increased by 3.3%.

Net fee and commission income from continuing operations grew by HK\$36 million, or 1.5%, to HK\$2,493 million. Commission income from securities and brokerage, retail banking, and asset management businesses grew, whereas income from trade finance and loans and guarantees declined.

Net trading and hedging results from continuing operations increased by HK\$193 million to HK\$559 million. Net insurance revenue from continuing operations increased by HK\$272 million, or 65.5%, to HK\$687 million. Overall, non-interest income from continuing operations grew by 14.0% to HK\$4,121 million. Operating income from continuing operations increased by 8.4% to HK\$15,953 million.

Total operating expenses from continuing operations fell by 1.7% to HK\$8,067 million. The cost-to-income ratio improved from 55.8% in 2016 to 50.6% in 2017.

Operating profit before impairment losses from continuing operations stood at HK\$7,886 million, an increase of HK\$1,378 million, or 21.2%, when compared with 2016.

Impairment losses on loans and receivables from continuing operations fell by 49.7% to HK\$1,742 million. The Group's impaired loan ratio fell to 1.09% at the end of 2017, as compared to 1.49% at the end of 2016. The impaired loan ratio for Hong Kong operations fell from 1.03% to 0.91%, while that for Mainland China operations fell from 2.87% to 1.79%.

Impairment losses on intangible assets from continuing operations were HK\$650 million, largely due to a decrease in market value of the naming rights of a building partially owned and occupied by BEA China on the Mainland. The impairment charge reflects the diminution in value following a recent change in government policy regulating advertising billboards.

Operating profit after impairment losses from continuing operations amounted to HK\$5,429 million, an increase of HK\$2,384 million, or 78.3%.

Net profit on the sale of available-for-sale financial assets from continuing operations increased by 1,046.5% to HK\$1,057 million. Upon transition to HKFRS 9 on 1st January 2018, any unrealised gains/losses of available-for-sale financial assets that are required to be reclassified as “fair value through profit or loss” as of 31st December, 2017 have to be transferred from revaluation reserve to the opening balance of retained earnings at 1st January 2018, and cannot be recycled to the profit and loss account upon subsequent disposal. Hence, the Group has chosen to dispose of such available-for-sale financial assets before the end of 2017, as far as practicable.

Net profit on the disposal of assets held for sale from continuing operations included a net gain of HK\$192 million from the sale of a property in Hong Kong.

Valuation gains on investment properties from continuing operations increased to HK\$522 million.

The Group shared after-tax profits from associates of HK\$388 million from continuing operations, a decrease of HK\$43 million, or 10.1%, compared to 2016.

After accounting for income taxes, profit after taxation from continuing operations rose to HK\$6,370 million, an increase of 80.7% compared to the HK\$3,525 million recorded in 2016.

Financial Position

Total consolidated assets of the Group stood at HK\$808,942 million at the end of December 2017, an increase of 5.6% compared to HK\$765,706 million at the end of 2016.

Gross advances to customers rose by 4.3% to HK\$473,776 million, while trade bills negotiated grew by 16.5% to HK\$13,910 million.

Total equity attributable to owners of the parent increased to HK\$89,482 million, up 14.1%, mainly due to the net profit of HK\$9,347 million earned during 2017. Additional equity instruments increased to HK\$8,894 million, up 77.3%, due to an issue of US\$500 million in Additional Tier One Capital Instruments in May 2017.

Subordinated debts issued decreased to HK\$12,413 million, down 39.8%, as a USD500 million issue of subordinated notes was called on 4th May, 2017 and a SGD800 million issue of subordinated notes was called on 13th September, 2017.

Debt securities issued decreased to HK\$1,007 million, down 85.9%.

Total deposits from customers grew by 6.7% to HK\$571,684 million. Of the total, demand deposits and current account balances increased by HK\$10,525 million, or 14.0%; savings deposits increased by HK\$7,507 million, or 5.9%; and time deposits increased by HK\$17,863 million, or 5.3%. Total deposit funds, comprising deposits from customers and all certificates of deposit issued, rose by 7.7% to HK\$608,150 million.

The loan-to-deposit ratio stood at 77.9% at the end of 2017, compared to 80.4% at the end of 2016.

As at 31st December, 2017, the total capital ratio, tier 1 ratio, and common equity tier 1 ratio were 17.8%, 15.1%, and 13.2%, respectively. The average liquidity coverage ratio for the quarter ended 31st December, 2017 was 151.7%, which was well above the statutory limit of 80% for the year 2017.

RATINGS

S&P Global Ratings

<i>The Bank of East Asia, Limited</i>	
Long-term Counterparty Credit (local and foreign currency)	A-
Short-term Counterparty Credit (local and foreign currency)	A-2
Outlook	Stable

<i>The Bank of East Asia (China) Limited</i>	
Long-term Counterparty Credit (local and foreign currency)	A-
Short-term Counterparty Credit (local and foreign currency)	A-2
Outlook	Stable

Moody's Investor Service

<i>The Bank of East Asia, Limited</i>	
Long-term Bank Deposit (local and foreign currency)	A3
Short-term Bank Deposit (local and foreign currency)	Prime-2
Outlook	Negative

The outlook is deemed negative by Moody's for the following reasons: (1) operating conditions may weaken; and (2) the adoption of a "bail-in" resolution regime in Hong Kong in 2017 may provide greater leeway for the Government to allow a financial institution to fail, under certain conditions.

MAJOR RECOGNITION

The Bank of East Asia, Limited

1. 2017 Best Bank in Hong Kong
- *Global Finance Magazine*
2. "Quamnet Outstanding Enterprise Awards 2016 – Outstanding SME Service Provider (Bank)"
(for the fourth consecutive year)
- *Quam (H.K.) Limited*
3. "2017 Best SME's Partner Award" (for the tenth consecutive year)
- *The Hong Kong General Chamber of Small and Medium Business*
4. "CAPITAL Merits of Achievement in Banking and Finance 2017 - Cross-border Business Award" (for the first year)
- *CAPITAL Magazine*
5. "Outstanding Import and Export Industry Partner Award" (for the fourth consecutive year) -
The Hong Kong Chinese Importers' & Exporters' Association
6. "Best Premium Commercial Card Program", "Highest Growth Outstanding Balance – 1st Runner Up" and "Highest Growth Cardholder Spending – 1st Runner Up"
- *Mastercard*
7. "Highest Card Volume Growth (Credit Card) - Bronze Award", Gold Award for 2016 highest number of Online Payment merchants, and Silver Award for 2016 highest Online Payment transaction volume for merchants
- *UnionPay International*
8. "2016 E-commerce Efficiency-International"
- *Visa Inc.*
9. "2017 Best Bank Card Innovation"
- *MoneyHero.com.hk*
10. Best Mobile Banking Application, Hong Kong 2016
- *International Finance Magazine*
11. Excellent Award in "Digital Banking" and "Banking Security of the Year" in the Financial Institution Awards 2017
- *Bloomberg Businessweek Chinese Edition*
12. "Most Innovative Banking Brand, Hong Kong" in the Global Brands Magazine Awards 2017
- *Global Brands Magazine*

13. "Outstanding Digital Branch Services" in the Hong Kong Digital Brand Awards 2017
- *Metro Broadcast / The Chamber of Hong Kong Computer Industry*

The Bank of East Asia (China) Limited

14. "2017 Foreign Bank of Excellent Competitiveness" in the 2017 Financial Institutions of Excellent Competitiveness
- *China Business Journal*
15. "Annual Foreign Bank of Excellent Competitiveness" in the 2016 - 2017 Financial Excellence Award
- *The Economic Observer*
16. "2017 Annual Best Foreign Bank" in the 8th Golden Tripod Award
- *National Business Daily*
17. "2017 Institutional Contribution Award" in the Annual Shanghai Financial Institutions Awards Programme
- *Shanghai Banking Association*
18. "Best 10 Innovation Institutions Award" in "2017 YICAI China Best Financial Planners"
- *YICAI*
19. "Best Brand-building Foreign Bank" in the 2017 Golden-shell Award of China
- *21st Century Business Herald*
20. "2017 Best Financial Planning Mobile APP for Customers" in the "Top International Financial Planning Institution Selection"
- *International Financial News*

Blue Cross (Asia-Pacific) Insurance Limited

21. "The Most Favourite Travel Insurance Company Award 2017" (for the thirteenth consecutive year)
- *Weekend Weekly Magazine*
22. "Hong Kong Digital Brand Awards 2017 – Outstanding Online Travel Insurance Services"
- *Metro Broadcast / The Chamber of Hong Kong Computer Industry*

BEA Union Investment Management Limited

23. "BENCHMARK Fund of the Year Awards 2017: Asia Fixed Income within Mutual Funds' House Awards, Best-In-Class"
- *BENCHMARK magazine*

For the BEA Union Investment Asian Bond and Currency Fund:

24. "Best Bond Fund, Asia Pacific, Local Currency" (for its 3-year performance)
- *Lipper Fund Awards Programme 2017 Hong Kong*
25. "Best Bond Fund, Asia Pacific, Local Currency" (for its 5-year performance)
- *Lipper Fund Awards Programme 2017 Hong Kong*

BUSINESS REVIEW

Global economic growth picked up steam in 2017. The United States economy enjoyed continued strength, while economic conditions in Europe, China, Japan and emerging markets generally improved.

With solid external demand, Hong Kong's exports jumped by 8.0% in 2017. Growth in private consumption also accelerated, as asset markets performed strongly and the unemployment rate reached a 19-year low of 3.1% in 2017. In addition, a recovery in tourist spending led to a 2.2% increase in retail sales in 2017.

Hong Kong residential property prices rose by 14.8% in 2017. Meanwhile, transaction volume jumped by 14.8% in 2017, following two consecutive years of decline. Overall, the Hong Kong economy expanded at a strong 3.9% pace in the first three quarters of 2017.

On the Mainland, the export sector grew by a solid 7.9% in 2017 on the back of stronger global demand. Consumer spending stabilised, supported by improving economic fundamentals. And the internet sector continued to shine, with China now widely recognised as a global leader in internet technologies.

The government took advantage of the improving economic conditions to slow investment growth through monetary tightening. Shadow banking also came under greater government scrutiny. Meanwhile, the property market entered a period of consolidation in late 2017, after the government introduced new measures to contain the rise in prices.

Looking ahead, the economic outlook for the near term is considered benign. Consumer demand should remain stable. The Chinese government will continue to focus on structural issues, with the aim of encouraging sustainable growth. The Chinese economy is likely to grow by 6.5% in 2018, with inflation around 2.2%.

Turning to Hong Kong, the positive external environment should sustain favourable economic conditions. However, a number of global issues, including geopolitical developments in North Asia, monetary tightening in the US and the Brexit transition, require close monitoring.

Hong Kong's gross domestic product is forecast to grow by 2.8% in 2018, while the inflation rate will soften to 2.2%.

Business – Hong Kong

The aggregate value of all customer loans and trade bills of BEA in Hong Kong was 2.7% higher at the end of December 2017 than at the end of 2016. Customer loans increased by 3.3% over the period, while debt investments increased by 4.4% and customer deposits rose by 5.4%.

Corporate and Commercial Banking

Corporate Banking faced sustained pressure in 2017. Both net interest income and net fee and commission income declined compared to the previous year. Competition remained tight in the loan market, and there were repayments as corporations turned to other sources of funding such as issuing notes and bonds.

Following a robust period of growth in cross-border lending during the early part of the decade, the Bank has taken a more conservative stance since the 2015 market high. In 2017, Corporate Banking was selective in its cross-border portfolio in light of tightened controls on overseas investments and capital outflow. As a result of this prudent approach, formation of non-performing loans was significantly reduced. While impairment losses saw an upturn, this was due to problem loans from the previous year.

The existing portfolio is healthy, and the Bank is therefore in a strong position to take advantage of new opportunities as onshore liquidity tightens and Chinese corporates return to Hong Kong to raise funds.

In particular, Corporate Banking is working closely with BEA China to solicit clients in Qianhai and the Guangdong-Hong Kong-Macau Greater Bay Area, where there is huge potential for growth. After the opening of the Hong Kong-Zhuhai-Macau Bridge, economic activity in the area is expected to rise, and the Bank has already brought in a number of new clients in the real estate, leasing, light industry and technology sectors. Continued efforts will be made to develop new relationships in policy-favoured industries and expand business opportunities.

Meanwhile, the Bank is reaching out to local SME clients through its Hong Kong branch network, with the aim of increasing transaction-fee income and diversifying its customer base. The range of investment and insurance products offered to corporate clients has been expanded to meet growing demand for wealth-management and financial-planning solutions. Demand for treasury products is also expected to increase as interest rates rise.

Personal Banking

The Bank's retail operations continued to benefit from converting to digital technology and services. Operating income rose by 16.4% year-on-year in 2017, driven by double digit growth in both net interest income and net fee and commission income. Retail sales of investment and insurance products for the year reached a record high. In addition, more "all-in-one" accounts were opened, and average current and savings account balances increased.

The branch transformation project was successfully completed in 2017, with all 72 branches digitalised. Penetration of the Bank's online and mobile service channels, which have significantly lower transaction costs, has risen in tandem with this process. At the retail level, the number of digital customers – those who use the Bank's Cyberbanking service or mobile application regularly – increased by 30.5% year-on-year in 2017.

More and more retail customers are using the Bank's digital channels to purchase investment products. Income from sales of linked deposits through Cyberbanking more than doubled in 2017. Following a system enhancement in August, online mutual fund subscriptions have risen strongly.

The Bank is continuing to improve its digital platform. The recently revamped BEA App combines an attractive and user-friendly interface with advanced big data capabilities. Banking functions have been enhanced to encourage frequent use, while sophisticated analysis of customer behaviour allows the app to offer a personalised user experience. With the upcoming "i-Planner" function, customers will be able to make detailed plans and receive tailored offers and recommendations. Initially focussed on travel, future updates will cater to key life events such as weddings, home purchases and retirement.

Wealth Management

Private Banking produced another solid performance in 2017. Net interest income recorded a high single-digit increase, while investment product revenue grew significantly due to the buoyant global stock markets. However, net fee and commission income declined against an exceptionally strong result in 2016. Overall, operating income was flat compared to the previous year.

Loans to Private Banking clients increased as customers sought to leverage their investments in a rising market. Assets under management grew by 24.0% due to higher client activity in equity investments, as well as new clients and funds coming on board.

Continual upgrades are being made to back-office processes and frontline sales tools, enhancing efficiency and improving the client experience. Meanwhile, Private Banking has been working to optimise its client mix and allocate marketing resources to targeted segments so as to maximise returns.

Private Banking remains China focussed and, like Corporate Banking, continues to work closely with the Bank's network in the Greater Bay Area to source new clients and seize opportunities for growth. Mainland clients now account for 47.1% of Private Banking's total net income.

Insurance and MPF Services

BEA Life Limited, the Bank's wholly-owned life insurance arm, recorded growth of 30.0% in new premium income, notwithstanding the high base set in 2016. Long-term products with annuity and endowment features performed well. BEA Life will continue to pursue sustainable growth in both premium revenue and commission income for the Bank by maintaining a balanced product mix.

In the general insurance market, competition remained intense. Underwriting profits for the market as a whole fell, as players cut rates to pursue top-line growth. Blue Cross (Asia-Pacific) Insurance Limited, BEA's wholly-owned general insurance arm, maintained a disciplined balance between growth and profitability, achieving double-digit growth in underwriting profit despite a slight drop in gross premium income. Online renewals were extended to all relevant personal general insurance products, and related premiums generated via digital channels grew by 31.4%. Blue Cross will continue to enhance its online capability, and will launch an e-claims service for travel insurance in the first half of 2018.

Total membership in BEA's MPF schemes grew to 738,000 at the end of 2017, while AUM increased by 23.2% to HK\$25.5 billion. The MPF business has become an important fee generator for the Bank, and profits were boosted in 2017 by solid investment returns and an effective drive to control costs by streamlining operations.

Broking Operations

With the combination of improving market sentiment and stringent cost control, the Bank's securities brokerage business experienced a strong rebound in 2017. Brokerage income rose some 40%, while pre-tax profits more than doubled. In the year ahead, the Bank will endeavour to increase customer loyalty by offering incentives while it strives to expand its market share by launching promotional campaigns and enhancing its e-channel platform to attract young, affluent clients.

In December, BEA's 49%-owned securities joint venture in Qianhai, East Asia Qianhai Securities Company Limited, was granted a Securities and Futures Business License by the China Securities Regulatory Commission. Being a fully licensed securities company, EA Qianhai will capitalise on opportunities arising from the growth of the Mainland's capital markets, and leverage online channels and physical outlets to build its customer base.

Business – China

The Mainland economy grew by 6.9% in 2017, slightly faster than projected at the beginning of the year. Growth was primarily driven by consumption, investment and trade, as the Central Government maintained its focus on supply-side structural reform and deleveraging. In addition, the Government stepped up efforts to control systemic financial risk. In line with the economic recovery, the Renminbi rebounded against the US dollar, following two years of decline.

BEA's China banking operations returned to profit in 2017, reversing a net loss of HK\$462 million in 2016 to post a HK\$318 million gain. The turnaround was mainly attributable to a reduction in provisions for impairment losses and ongoing efforts to control operating, funding and credit costs.

Underlying operating expenses for China banking operations for 2017 were HK\$2,955 million, down 7.0% year-on-year, while the cost-to-income ratio fell to 63.0%, down 345 basis points year-on-year. Net interest margin improved to 1.69%, an increase of 3 basis points compared to the figure reported at the end of 2016. The impaired loan ratio improved significantly, ending the year at 1.79%, down 108 basis points year-on-year. Both the impaired loan gross formation rate and special mention loans declined.

Efficiency is being enhanced at BEA China through the ongoing network repositioning programme. During the year, a total of 12 sub-branches were merged with other outlets. At the end of 2017, BEA China operated 30 branches and 77 sub-branches in 44 cities on the Mainland.

BEA China also took proactive measures to optimise its asset and liability structure during the year, emphasising quality over quantity. Largely due to this conservative stance, total loans to companies and individuals for BEA's China banking operations rose by a restrained 6.9% year-on-year to HK\$151,828 million. Total customer deposits rose by 9.9% to HK\$199,322 million.

Following the strategy direction established in 2016, BEA China stepped up efforts to promote non-property and consumer loans, cross-border business, and sales of treasury and wealth management products in order to diversify its asset and income portfolios. In addition, BEA China launched innovative credit card and consumer finance products in partnership with leading internet platform companies, advancing the digital transformation of its retail business.

Economic restructuring will remain a priority of the Central Government for the foreseeable future. The 19th Party Congress, held in October 2017, set out a roadmap for the Mainland's development over the next 30 years, based on coordinated development of the real economy, technological innovation and modernisation of finance.

BEA's China banking operations are well positioned to serve the country's new economic priorities and capitalise on opportunities arising from national strategies, in particular the Belt and Road Initiative and the development of the Greater Bay Area.

Looking ahead, BEA China will further expand its corporate banking business, focusing on promoting its integrated transaction banking services, cross-border financial solutions and advisory services. Meanwhile, sales of treasury products will remain a key driver of fee income for BEA China.

As for retail banking, BEA China will further develop cooperation with internet platform companies, expand its consumer finance business and seek to raise fee income through tailor-made wealth management products, mobile payment services and digital banking.

BEA China will also enhance efforts to improve capital and operating efficiency by investing in technology, streamlining the branch network, centralising operations and resolving impaired assets. In addition, BEA China's regional operating structure will be realigned in order to better pool branch resources and coordinate client marketing.

BEA is committed to facilitating business and promoting opportunities for growth on the Mainland, serving the needs of clients both on the Mainland and overseas. As the country's financial markets continue to develop, becoming ever more efficient and better integrated with global markets, BEA will be ready to capture new opportunities as they emerge.

Business – Macau and Taiwan

The recovery of Macau's gaming industry led to a sharp rebound in the local economy following several lacklustre years. BEA's Macau operations benefited from the more favourable market conditions, with total loans and deposits climbing by 15.7% and 13.3%, respectively, from a year earlier.

BEA's Macau Branch successfully enlarged its customer base, particularly among professionals and high-net-worth clients, opening up new opportunities for cross selling of insurance and investment products. Macau Branch therefore took special steps to enhance its insurance and investment product offerings during the year. Sales of investment fund products helped boost the Branch's fee income from unit trusts by 48.4% year-on-year. Looking ahead, Macau Branch will continue to widen its retail product range and enhance its online retail banking platform.

BEA's operations in Taiwan continued to face headwinds, with lending margins coming under pressure due to rising funding costs and intense competition. The property market remained stagnant, following cooling measures introduced by the Government. Facing a tough operating environment, Taiwan Branch will continue to prioritise margins over loan growth and look for opportunities to increase fee and commission income by actively participating in the syndicated loan market, and acting as arranger and facility agent.

Business – International

BEA's US operations posted a 6.4% year-on-year rise in operating profit and an 18.4% increase in net profit in 2017, in the face of ample liquidity and fierce competition in the US market. Asset quality remained sound, backed by prudent underwriting standards.

The US equity market captured the spotlight during the year, with major indices climbing to new heights, thanks to improving corporate earnings, favourable labour market conditions and strong consumer confidence. While interest rates are expected to rise in 2018, markets remain buoyant on the back of the passage of the tax reform package, ongoing deregulation and anticipated support for infrastructure investment.

Looking ahead, BEA's New York and Los Angeles branches will diversify and expand their loan books, targeting financially strong corporate borrowers in leading market positions, industries with positive prospects as well as high-quality real estate projects in gateway cities.

The Bank's operations in the United Kingdom also registered solid gains in 2017. Operating profit increased by 13.1% and net profit by 19.9%, as compared to 2016, despite the uncertainty arising from the UK's decision to leave the European Union. On the back of the depreciation of the pound sterling, BEA's branches in the UK continued to cater to the strong demand from overseas investors for quality assets in the UK, particularly prime London properties.

Other than commercial and residential property lending, the Bank's UK branches will continue to diversify their loan portfolio in non-property sectors and work with other Mainland, Asian, and international banks to explore lending opportunities to different industries.

Meanwhile, the operating environment in Singapore remained challenging in 2017. Singapore Branch recorded a 12.8% decrease in its loan portfolio compared to the end of 2016, mainly due to the continued decline in China-related trade finance facilities, the Bank's de-risking strategy and the decision to prioritise margins over loan growth.

The Branch's business development efforts in the middle-to-large corporate segment will continue into 2018 and further extend to government-linked corporations. In addition, the Branch will focus on increasing fee revenue by strengthening the range of ancillary products cross-sold to mid-size and large corporations. Given the Bank's strong China presence and the role of Singapore as a key node in China's Belt and Road Initiative, the Branch will step up efforts to provide effective cross-border financial solutions arising from China's trade flows and investments in Southeast Asia.

Labuan Branch registered a solid 18.5% rise in its loan portfolio in 2017. Against the backdrop of keen competition on pricing and higher funding costs, the Branch's lending margins came under pressure. In 2018, the Branch will target to broaden its customer base by expanding regional syndicated and bilateral loans to larger new-to-bank local Malaysian clients. It will also pay special attention to Mainland clients, who are stepping up their investments in Malaysia in line with the Belt and Road Initiative. The Branch will also strive to expand its fee-generating business by focussing on bank guarantees and stand-by letters of credit.

Going forward, BEA's overseas branches will continue their focus on quality lending businesses with an emphasis on improving return on risk-weighted assets. In addition, the Bank's overseas network will continue to maintain close ties with BEA's Head Office, BEA China, as well as the Bank's strategic partners to capture opportunities from outbound investments by businesses based in Greater China.

Other Subsidiaries

BEA Union Investment Management Limited

BEA Union Investment recorded a 31.81% increase in AUM year-on-year in 2017. This growth was mainly due to the Company's continued success in penetrating both the retail and institutional client segments in Europe and Asia.

In response to the growing demand from retail investors for funds with income features, the Asian Strategic Bond Fund was introduced at the beginning of the year.

To strengthen its capability in China's capital market, BEA Union Investment actively participated in the Stock and Bond Connect programmes. In addition, BEA Union Investment set up an investment management wholly foreign-owned enterprise in Qianhai, Shenzhen to provide investment solutions to high-net worth clients on the Mainland.

Overseas, the Company extended its distribution to Switzerland via the Mutual Recognition of Funds Scheme between Hong Kong and Switzerland.

Credit Gain Finance Company Limited

On 29th November, 2017, the Bank and its wholly-owned subsidiary, Credit Gain Finance Company Limited, entered into two agreements with China Financial Services Holdings Limited and its wholly-owned subsidiary, KP Credit Gain Finance Company Limited (formerly QL Finance Company Limited), pursuant to which, CFSH agreed to purchase the equity interests of the Bank's subsidiaries in Mainland China carrying out consumer finance businesses and QL Finance agreed to purchase the consumer finance loan portfolio of Credit Gain in Hong Kong. The sale of the Hong Kong loan portfolio was completed on 19th December, 2017. Completion of the transfer of the subsidiaries' equity interests in China is subject to Mainland regulatory approvals.

Our People

As of 31st December, 2017, the BEA Group's continuing operations employed 9,978 people:

Continuing Operations	As of 31 st December, 2017	As of 31 st December, 2016 Restated
Hong Kong	4,354	4,506
Mainland China	5,060	5,334
Overseas (Macau and Taiwan)*	564	549
Total	9,978	10,389

* With effect from 2017, Macau and Taiwan operations are grouped under Overseas operations and the 2016 figures have been restated for comparison purposes.

During the year under review, the Bank stepped up efforts to provide employees with new opportunities and greater exposure to different areas of its business and operations. To this end, the Bank encouraged job rotation among staff members, and further enhanced coaching and training programmes. The Bank also reviewed its performance management system, with the aim of better aligning performance reviews to attainment of the Bank's business and governance objectives. To groom young talent into future leaders, the Bank offered career development programmes while a wide range of training was provided for staff, to aid them in their ongoing professional development and strengthen their people management and leadership competencies.

To help build staff relations and encourage a healthy work-life balance, the Bank's Staff Sports and Recreation Club organised numerous social and sports activities throughout the year.

RISK MANAGEMENT

Risk Management Framework

The Group has established an effective risk governance and management framework in line with the requirements set out by the Hong Kong Monetary Authority and other regulators. This framework is built around a structure that enables the Board and Senior 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 under the Board. It consists of four independent non-executive directors (including the Chairman of the Committee) and two non-executive 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 reference 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 Senior Management and relevant Division Heads adopt to execute its business functions. Through the Group's management committees at the executive level, including Crisis Management Committee, Risk Management Committee, Credit Committee, Asset and Liability Management Committee, and Operational Risk Management Committee – 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.

Enterprise Risk Management

The Group has implemented an Enterprise Risk Management framework. The ERM framework is promulgated with the objectives of identifying and managing potential risks in a holistic and effective manner, fulfilling the HKMA's higher expectation for risk management of the Group as a Domestic Systemically Important Bank, and reinforcing the "Three Lines of Defence" risk management model.

The Group has adopted a "Three Lines of Defence" risk management structure to ensure that roles and responsibilities in regard to risk management within the Group are clearly defined. The "Three Lines of Defence" model is summarised as follows:

- The first line of defence comprises the Risk Owners, who are division heads at Head Office and heads of significant subsidiaries, together with staff under their management. They are primarily responsible for the day-to-day risk management of their units, including establishing and executing specific risk control mechanisms and detailed procedures.
- The second line of defence consists of the Risk Controllers, who are designated division / department heads at Head Office. Supported by their respective divisions and departments, the Risk Controllers are responsible for setting out a risk management governance framework, monitoring risks independently and supporting the management committees in their oversight of risk management.
- The third line of defence is the Internal Audit Division, which is responsible for providing assurance on the effectiveness of the Group's risk management framework including risk governance arrangements.

The Group Chief Risk Officer coordinates all risk management-related matters of the Group, works closely with the Risk Controllers on the formulation of risk management policies and exercises risk oversight at the Group level through a functional working relationship with all Risk Controllers and Risk Owners.

Principal Risks

The Group faces a variety of risks that could affect its franchise, operations, and financial conditions. Under the ERM framework, the principal risks include credit risk, interest rate risk, market risk, liquidity risk, operational risk, reputation risk, strategic risk, legal risk, compliance risk, technology risk, business continuity risk, and new product and business risk.

The Group has formulated policies to identify, measure, monitor, control, and report on the various types of risk and, where appropriate, to allocate adequate capital to cover those risks. These policies are reviewed and enhanced on a regular basis to cater for market changes, statutory requirements, and best practices in risk management processes.

Measures have been adopted to manage and mitigate these risks. Moreover, these risk factors are taken into consideration when formulating the Group's risk appetite statement.

Risk	Description	Management Measures
Credit	Risk of loss arising from a borrower or counterparty failing to meet its obligations	Establishment of comprehensive policies, guidelines, and manuals to set out credit control limits, delegated lending authorities, credit underwriting criteria, a credit monitoring process, an internal rating structure, credit recovery procedures, and a provisioning policy
Interest rate	Risk resulting from adverse movements in interest rates	<ul style="list-style-type: none"> - Establishment of comprehensive policies, guidelines, and manuals to set out control limits - In determining the level of interest rate risk, assessments are made for the re-pricing risk, basis risk, options risk, and yield curve risk components
Market	Risk arising from adverse movements in market factors such as interest rates, foreign exchange, equity prices, and commodities prices, which result in profits or losses for the Group	<ul style="list-style-type: none"> - Establishment of comprehensive policies, guidelines, and manuals to set out control limits - Measurement and monitoring of potential loss due to adverse price movements and market volatility

Risk	Description	Management Measures
Liquidity	Risk that the Group may not be able to meet its obligations as they come due because of an inability to obtain adequate funding (funding liquidity risk); or that the Group cannot easily liquidate assets quickly without significantly lowering market prices because of inadequate market depth or market disruptions (market liquidity risk)	<ul style="list-style-type: none"> - Establishment of comprehensive policies, guidelines, and manuals to set out control limits and internal liquidity metrics - Conducting cash flow analysis to monitor funding needs - Contingency funding plan to clearly stipulate procedures and mitigating actions required to meet liquidity needs in crisis situations
Operational	Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events	Establishment of comprehensive policies, guidelines, and manuals to identify, assess, monitor, and report operational risk of the Bank Group systematically and effectively, such as setting out operational risk incident reporting, risk control self-assessment, key risk indicators, insurance policies, etc.
Reputation	Risk that the Group's reputation is damaged by one or more events that result in negative publicity about the business practices, conduct, or financial condition of the Group. Such negative publicity, whether true or not, may impair public confidence in the Group and may result in costly litigation or lead to a decline in its customer base, business, and / or revenue.	<ul style="list-style-type: none"> - Establishment of various policies, guidelines, manuals and codes to ensure compliance with applicable laws, rules and regulations, and to ensure that the Bank Group maintains a high standard of corporate governance, which in turn helps to safeguard and enhance the Group's reputation - Formulation of, and adherence to, the Reputation Risk Management Manual, which outlines a systematic approach to the management of reputation risk, including a framework for reputation risk identification, assessment, monitoring, mitigation and control, thereby protecting and enhancing the reputation of the Bank Group - Establishment of the Guidelines for Incident Response and Management for swift response to and management of unexpected incidents - Establishment of Media Guidelines to ensure effective and consistent delivery of the Group's key messages to the media
Strategic	Risk of current or potential impact on the Group's earnings, capital, reputation, or standing arising from changes in the environment the Group operates in, adverse strategic decisions, improper implementation of decisions, or lack of responsiveness to industry, economic, or technological changes	<ul style="list-style-type: none"> - Establishment of comprehensive policies, guidelines, and manuals, to set out control limits and measures - Active capital management through projection of the Capital Adequacy Ratio and Internal Capital Adequacy Assessment Process to assess the level and structure of capital resources needed to support the risks that the Group faces
Legal	Risk of loss arising from unenforceable contracts, lawsuits, or adverse judgments that may disrupt or otherwise negatively affect the operations or financial	<ul style="list-style-type: none"> - Establishment of comprehensive policies, guidelines, and manuals

Risk	Description	Management Measures
	condition of the Group	<ul style="list-style-type: none"> - Provision of appropriate training courses conducted by qualified internal personnel and / or external lawyers / professionals and the issue of regular reminders to staff members - Engagement of qualified internal personnel and, when necessary and appropriate, external lawyers with appropriate expertise including counsel and senior counsel for advice
Compliance	Risk of potential losses arising from legal or regulatory sanctions, fines and penalties, financial losses or damage to reputation that the Bank Group may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its business activities	<ul style="list-style-type: none"> - Establishment of various policies, guidelines and manuals to ensure compliance with all applicable legislation, rules, codes of conduct, industry standards and guidelines issued by the relevant regulatory authorities that govern the Group's operations - Formulation of, and adherence to, the Group Compliance Risk Management Manual, which outlines a systematic approach to the management of compliance risk, including a framework for compliance risk identification, assessment, monitoring, mitigation and control, thereby enabling the Bank Group to manage its compliance risk effectively - Conduct of independent regulatory compliance reviews on major functions of the Bank using a risk- based approach
Technology	Risk of loss to the Group due to inadequate or failed technical processes, people and / or computing systems, or unauthorised access or disruption to technology resources, in particular relating to cyber security and e-banking	<ul style="list-style-type: none"> - Establishment of a technology risk management framework, supported by comprehensive control policies, standards, guidelines, and procedures - Adoption of control measures relating to the security of internet systems and applications, customer authentication, risk assessment for new products and services, and confidentiality and integrity of information
Business Continuity	Risk of loss arising from business disruptions in the event of an incident or crisis. Business disruption could be caused by the loss of staff members, information technology and telecommunication systems, premises, key service providers, vital records, etc.	<ul style="list-style-type: none"> - Establishment of comprehensive policies, guidelines and manuals - Conduct of business impact analysis and development of business continuity plans by all individual functional units of the Bank Group - Performance of annual drills to test preparedness and effectiveness of business continuity plans
New Product and Business	Risk of loss due to insufficient pre-assessment of significant potential risks introduced to the Group arising from the launch of new products, the structural change of existing products, and the establishment of new business operations (i.e. through the	<ul style="list-style-type: none"> - Establishment of a robust risk governance structure, supported by comprehensive policies, manuals, control guidelines and procedures

Risk	Description	Management Measures
	establishment of a new subsidiary and / or merger & acquisition). The significant potential risks include Credit Risk, Market Risk, Operational Risk, Liquidity Risk, Interest Rate Risk, Legal Risk, Technology Risk, Compliance Risk, Strategic Risk, Reputation Risk and Business Continuity Risk	<ul style="list-style-type: none"> - A structured process, which ensures that before initiating a new product or business, the potential significant risks are duly assessed, documented and vetted. The process also facilitates oversight of new products and businesses by Senior Management

Principal Uncertainties

The key uncertainties facing the Group in 2018 and the mitigating measures instituted are set out below:

Uncertainty	Description	Mitigating Measures
Economic conditions in the Group's major markets	<p>The Group's major markets are Hong Kong and Mainland China.</p> <p>Downturn in economic conditions in the major markets can adversely affect:</p> <ul style="list-style-type: none"> - the financial conditions and repayment ability of borrowers; - personal consumption and customer demand for banking products; and - collateral values. <p>The US Federal Reserve's decision to reduce its balance sheet and raise interest rates may impact customers' debt-servicing ability and property prices. In particular, the timing, frequency, and magnitude of US rate hikes may increase uncertainties concerning the slower pace of global economic growth, reversion of asset prices, foreign exchange markets and liquidity.</p>	<ul style="list-style-type: none"> - The business strategies take into consideration changing economic conditions. - Economic trends are closely monitored. - The suitability of risk management policies and controls are reviewed and updated on an ongoing basis.
Legal and regulatory changes	<p>In view of the increasingly complex operating environment, legal and regulatory requirements are becoming more stringent, which may impact the Group's business strategies, operations, funding and capital management.</p>	<ul style="list-style-type: none"> - The Group keeps abreast of legal and regulatory developments and will seek advice from external lawyers with appropriate expertise so as to comply with the legal and regulatory requirements. - The Group reviews consultation papers on new laws and regulations to assess their impact on the Group. Where appropriate, the Group will provide input to the regulators both directly and through industry groups.

Uncertainty	Description	Mitigating Measures
External fraud	External fraud has become more sophisticated and more difficult to prevent in a digital environment.	<ul style="list-style-type: none"> - Control measures have been formulated to detect and prevent fraud. - The control measures are reviewed and enhanced on an ongoing basis, taking into consideration the causes of external fraud incidents and the changing technological environment.
Foreign exchange rate movement	<p>One of the major concerns for the Group in 2018 is a possible rebound in the value of the US dollar. Other concerns include the potential impact on exchange rates of Federal Reserve action to raise interest rates, the decision to reduce the Federal Reserve balance sheet, and political uncertainties such as tensions on the Korean Peninsula, the progress of Brexit negotiations, and the contentious political environment in the US.</p> <p>Another major challenge for the Group is the potential for adverse movement in the RMB. With a focus on deleveraging, it is expected that The People's Bank of China will manage interbank liquidity prudently. Any deterioration in credit / liquidity would unnerve market sentiment, leading to depreciation pressure on the RMB and higher volatility.</p> <p>Unexpected fluctuations in foreign exchange rates could affect:</p> <ul style="list-style-type: none"> - the value of the Group's foreign currency and capital positions; and - the wealth of the Group's customers and their repayment ability; it will also affect counterparty credit exposure of the derivative transactions. 	<ul style="list-style-type: none"> - The Group closely monitors exchange rate movements and has laid down policies to manage currency risk. - Regular stress tests are conducted to assess the impact of exchange rate movements on profit and loss and capital adequacy. - The Group closely observes market movements. The Group will monitor its businesses in China and regularly review the profile of customers with exposure to China and the RMB.

Certificates of Deposit, Debt Securities Issued, and Loan Capital

In 2017, BEA issued floating rate certificates of deposit and debt securities with a face value of US\$122 million; fixed rate certificates of deposit and debt securities with a face value of HK\$6,990 million, US\$857 million, CNY104 million, GBP266 million, EUR280 million, CHF40 million and JPY7,000 million; and zero coupon certificates of deposit and debt securities with a face value of HK\$4,144 million, US\$4,445 million, CNY5,690 million, GBP546 million, EUR285 million, JPY4,000 million and CHF90 million. The Group redeemed a quantity of certificates of deposit and debt securities amounting to HK\$73,319 million equivalent upon maturity.

At the end of December 2017, the face value of the outstanding certificates of deposit and debt securities issued was equivalent to HK\$37,631 million, with a carrying amount equivalent to HK\$37,473 million.

Maturity Profile of Certificates of Deposit and Debt Securities Issued

As at 31st December, 2017

(All expressed in millions of dollars)

	<u>Total Face Value</u>	<u>Year of Maturity</u>		
		<u>2018</u>	<u>2019</u>	<u>2020</u>
Floating Rate				
USD	122	102		20
Fixed Rate (Note)				
HKD	3,548	3,248	300	
USD	590	590		
CNY	104	104		
JPY	7,000	7,000		
CHF	40	40		
EUR	50	50		
Zero Coupon				
HKD	1,880	1,880		
USD	2,247	2,247		
CNY	2,190	2,190		
GBP	353	353		
JPY	4,000	4,000		
CHF	90	90		
EUR	35	35		
Total Certificates of Deposit and Debt Securities issued in HKD equivalent	37,631	37,175	300	156

Note:

Associated interest rate swaps have been arranged in order to manage interest rate risk from long-term certificates of deposit and debt securities issued, if deemed necessary.

In 2017, the Group redeemed a quantity of loan capital amounting to HK\$8,538 million equivalent.

At the end of December 2017, the face value of the outstanding loan capital issued was equivalent to HK\$12,501 million, with a carrying amount equivalent to HK\$12,413 million.

Maturity Profile of Loan Capital

As at 31st December, 2017

(All expressed in millions of dollars)

	<u>Total Face Value</u>	<u>Year of Maturity</u>		
		<u>2020</u>	<u>2024</u>	<u>2026</u>
USD (Notes 1 & 2)	1,600	600	500	500
Total Loan Capital issued in HKD equivalent	12,501	4,689	3,906	3,906

Notes:

1. The US\$500 million loan capital that matures in 2024 will be callable on 20th November, 2019.
2. The US\$500 million loan capital that matures in 2026 will be callable on 3rd November, 2021.

COMPLIANCE

Compliance is an integral part of the Group's corporate governance. BEA is acutely aware of the potential risks of regulatory non-compliance, which could lead to legal or regulatory sanctions, supervisory actions or financial penalties imposed by regulators, financial losses, and/or the loss of reputation to the Group (i.e. compliance risk).

To address the growing compliance requirements, the Compliance Division is responsible for overseeing the regulatory compliance framework and monitoring the compliance risks for the Group; communicating new regulatory requirements to affected units; delivering compliance advice for the implementation of relevant regulations; conducting regulatory compliance reviews on a risk-based approach; and regularly reporting compliance matters to the Group's management committees. Any significant compliance issues, including those related to anti-money laundering and counter-terrorist financing, are also reported to the Risk Committee and the Board of Directors via the Operational Risk Management Committee. Through the support of the Risk and Compliance Function established in the Bank's business, functional, and operations units, which act as the first line of defence against regulatory non-compliance, a comprehensive and efficient compliance risk management framework is maintained within the Group.

In view of the increasing demand on banks to comply with new and tighter regulations – including those related to anti-money laundering and counter-terrorist financing; the Foreign Account Tax Compliance Act of the United States of America; new legislation in Hong Kong for implementing the international standard on the automatic exchange of financial account information in tax matters; and cross-border business, personal data protection, insurance and investment products sales practices, etc. – BEA expects compliance requirements to remain unavoidably high in the coming years.

By order of the Board

David LI Kwok-po

Chairman & Chief Executive

Hong Kong, 22nd February, 2018

As at the date of this announcement, the Board of Directors of the Bank comprises Dr. the Hon. Sir David LI Kwok-po[#] (Chairman & Chief Executive), Professor Arthur LI Kwok-cheung (Deputy Chairman), Dr. Allan WONG Chi-yun** (Deputy Chairman), Mr. Aubrey LI Kwok-sing*, Mr. Winston LO Yau-lai*, Mr. Stephen Charles LI Kwok-sze*, Dr. Isidro FAINÉ CASAS*, Dr. Peter LEE Ka-kit*, Mr. Adrian David LI Man-kiu[#] (Deputy Chief Executive), Mr. Brian David LI Man-bun[#] (Deputy Chief Executive), Dr. Daryl NG Win-kong*, Mr. Masayuki OKU*, Dr. the Hon. Rita FAN HSU Lai-tai**, Mr. Meocre LI Kwok-wing**, Dr. the Hon. Henry TANG Ying-yen**, The Hon. CHAN Kin-por** and Dr. Delman LEE**.*

[#] *Executive Director*

^{*} *Non-executive Director*

^{**} *Independent Non-executive Director*

GLOSSARY

詞彙

2018 AGM 「2018股東周年常會」	An AGM of the Bank to be held in the Grand Ballroom, Four Seasons Hotel, 8 Finance Street, Hong Kong on Friday, 11 th May, 2018 at 11:30 a.m. or any adjournment thereof 本行將於2018年5月11日星期五上午11時30分在香港中環金融街8號四季酒店大禮堂舉行的股東周年常會，或其任何續會
AGM 「股東周年常會」	An Annual General Meeting of the Bank 本行的股東周年常會
AUM 「管理資產」	Assets under management 管理資產
Bank Group or BEA Group or Group 「集團」或「本集團」	The Bank and its subsidiaries 東亞銀行及其附屬公司
Bank or BEA 「本行」或「東亞銀行」	The Bank of East Asia, Limited, a limited liability company incorporated in Hong Kong 東亞銀行有限公司，於香港註冊成立的有限公司
Bank Culture Reform 「銀行企業文化改革」	The circular in respect of Bank Culture Reform, issued by the HKMA on 2 nd March, 2017 金管局於2017年3月2日發出之銀行企業文化改革通告
Banking Ordinance 「《銀行業條例》」	The Banking Ordinance (Chapter 155 of the Laws of Hong Kong) 《銀行業條例》（香港法例第155章）
BEA China 「東亞中國」	The Bank of East Asia (China) Limited, a wholly-owned subsidiary of the Bank 東亞銀行（中國）有限公司，本行的全資附屬公司
BEA Hong Kong 「東亞香港」	The Bank's operations in Hong Kong 本行的香港業務
BEA Life 「東亞人壽」	BEA Life Limited, a wholly-owned subsidiary of the Bank 東亞人壽保險有限公司，本行的全資附屬公司
BEA Union Investment 「東亞聯豐投資」	BEA Union Investment Management Limited, a non-wholly-owned subsidiary of the Bank 東亞聯豐投資管理有限公司，本行的非全資附屬公司
Blue Cross 「藍十字」	Blue Cross (Asia-Pacific) Insurance Limited, a wholly-owned subsidiary of the Bank 藍十字（亞太）保險有限公司，本行的全資附屬公司
Board 「董事會」	Board of Directors of the Bank 本行的董事會
Capital Rules 「《資本規則》」	Banking (Capital) Rules issued by the HKMA 金管局頒布的《銀行業（資本規則）》
CFSH 「中金投」	China Financial Services Holdings Limited 中國金融投資管理有限公司
CG Code 「《企業管治守則》」	Corporate Governance Code and Corporate Governance Report, Appendix 14 of the Listing Rules 《上市規則》附錄14內所載的《企業管治守則》及《企業管治報告》
CG-1 「CG-1」	Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorized Institutions, issued by the HKMA 金管局頒布之監管政策手冊CG-1內有關《本地註冊認可機構的企業管治》

CG-5 「CG-5」	Supervisory Policy Manual CG-5 on Guideline on a Sound Remuneration System, issued by the HKMA 金管局頒布之監管政策手冊CG-5內有關《穩健的薪酬制度指引》
CHF 「瑞士法郎」	Swiss franc 瑞士法定貨幣
China, Mainland, Mainland China, or PRC 「中國」或「內地」	People's Republic of China 中華人民共和國
CNY or RMB 「人民幣」	Chinese yuan or Renminbi, the lawful currency of the PRC 中國法定貨幣
Companies Ordinance 「《公司條例》」	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong) 《公司條例》（香港法例第622章）
Credit Gain 「領達財務」	Credit Gain Finance Company Limited, a wholly-owned subsidiary of the Bank 領達財務有限公司，本行的全資附屬公司
Director(s) 「董事」	Includes any person who occupies the position of a director, by whatever name called, of the Bank or otherwise as the context may require 包括任何任職本行董事職位的人士（不論其職銜如何），或文義另有所指的人士
EA Qianhai 「東亞前海」	East Asia Qianhai Securities Company Limited 東亞前海證券有限責任公司
Guidance on Empowerment of INEDs 「提升獨立非執行董事的專業能力指引」	The guidance on Empowerment of Independent Non-Executive Directors (INEDs) in the Banking Industry in Hong Kong, issued by the HKMA on 14 th December, 2016 金管局於2016年12月14日頒布之提升香港銀行業獨立非執行董事的專業能力指引
ERM 「企業風險管理」	Enterprise risk management 企業風險管理
EUR 「歐羅」	Euro 歐羅區法定貨幣
GBP 「英鎊」	Pound sterling, the lawful currency of the UK 英國法定貨幣
Greater Bay Area 「大灣區」	Guangdong-Hong Kong-Macau Greater Bay Area 「粵港澳大灣區」
HK\$ or HKD 「港幣」	Hong Kong dollar, the lawful currency of Hong Kong 香港法定貨幣
HKAS 「香港會計準則」	Hong Kong Accounting Standards 香港會計準則
HKFRS 「香港財務報告準則」	Hong Kong Financial Reporting Standards 香港財務報告準則
HKICPA 「香港會計師公會」	Hong Kong Institute of Certified Public Accountants 香港會計師公會
HKMA 「金管局」	Hong Kong Monetary Authority 香港金融管理局

Hong Kong or HK 「香港」	Hong Kong Special Administrative Region of PRC 中華人民共和國香港特別行政區
HKFRS9 「財務報告第9號」	Hong Kong Financial Reporting Standard 9: Financial Instruments 香港財務報告準則第9號：監管匯報
JPY 「日圓」	Japanese yen, the lawful currency of Japan 日本法定貨幣
Listing Rules 「《上市規則》」	The Rules Governing the Listing of Securities on the Stock Exchange (as amended, modified or otherwise supplemented from time to time) 聯交所《證券上市規則》，經不時修訂、修改或以其他方式補充
Macau Branch 「澳門分行」	The Bank's branch operations in Macau 本行的澳門分行
Moody's 「穆迪」	Moody's Investor Service 穆迪信貸服務
MPF 「強積金」	Mandatory Provident Fund 強制性公積金
MYR 「馬幣」	Malaysian Ringgit, the lawful currency of Malaysia 馬來西亞法定貨幣
QL Finance 「乾隆信貸」	QL Finance Company Limited 乾隆信貸有限公司
Senior Management 「高層管理人員」	The Chief Executive, Executive Directors and Deputy Chief Executives of the Bank 本行的行政總裁，執行董事及副行政總裁
SGD 「新加坡元」	Singapore dollar, the lawful currency of Singapore 新加坡法定貨幣
Share 「股份」	Ordinary shares of the Bank 本行普通股
SME(s) 「中小企」	Small and medium-sized enterprise(s) 中小型企業
Stock Exchange 「聯交所」	The Stock Exchange of Hong Kong Limited 香港聯合交易所有限公司
Taiwan Branch 「台灣分行」	The Bank's branch operations in Taiwan 本行的台灣分行
UK 「英國」	United Kingdom 英國
US 「美國」	United States of America 美利堅合眾國
US\$ or USD 「美元」	United States dollar, the lawful currency of the US 美國法定貨幣